

THE ECONOMICS OF UNIVERSAL MAIL POST PAEA

HEARING

BEFORE THE
SUBCOMMITTEE ON FEDERAL WORKFORCE,
POSTAL SERVICE, AND THE DISTRICT
OF COLUMBIA

OF THE
COMMITTEE ON OVERSIGHT
AND GOVERNMENT REFORM
HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

MAY 8, 2008

Serial No. 110-138

Printed for the use of the Committee on Oversight and Government Reform



Available via the World Wide Web: <http://www.gpoaccess.gov/congress/index.html>
<http://www.house.gov/reform>

U.S. GOVERNMENT PRINTING OFFICE

48-240 PDF

WASHINGTON : 2009

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2104 Mail: Stop IDCC, Washington, DC 20402-0001

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

HENRY A. WAXMAN, California, *Chairman*

EDOLPHUS TOWNS, New York	TOM DAVIS, Virginia
PAUL E. KANJORSKI, Pennsylvania	DAN BURTON, Indiana
CAROLYN B. MALONEY, New York	CHRISTOPHER SHAYS, Connecticut
ELIJAH E. CUMMINGS, Maryland	JOHN M. McHUGH, New York
DENNIS J. KUCINICH, Ohio	JOHN L. MICA, Florida
DANNY K. DAVIS, Illinois	MARK E. SOUDER, Indiana
JOHN F. TIERNEY, Massachusetts	TODD RUSSELL PLATTS, Pennsylvania
WM. LACY CLAY, Missouri	CHRIS CANNON, Utah
DIANE E. WATSON, California	JOHN J. DUNCAN, JR., Tennessee
STEPHEN F. LYNCH, Massachusetts	MICHAEL R. TURNER, Ohio
BRIAN HIGGINS, New York	DARRELL E. ISSA, California
JOHN A. YARMUTH, Kentucky	KENNY MARCHANT, Texas
BRUCE L. BRALEY, Iowa	LYNN A. WESTMORELAND, Georgia
ELEANOR HOLMES NORTON, District of Columbia	PATRICK T. McHENRY, North Carolina
BETTY MCCOLLUM, Minnesota	VIRGINIA FOXX, North Carolina
JIM COOPER, Tennessee	BRIAN P. BILBRAY, California
CHRIS VAN HOLLEN, Maryland	BILL SALI, Idaho
PAUL W. HODES, New Hampshire	JIM JORDAN, Ohio
CHRISTOPHER S. MURPHY, Connecticut	
JOHN P. SARBANES, Maryland	
PETER WELCH, Vermont	

PHIL SCHILIRO, *Chief of Staff*

PHIL BARNETT, *Staff Director*

EARLEY GREEN, *Chief Clerk*

LAWRENCE HALLORAN, *Minority Staff Director*

SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF
COLUMBIA

DANNY K. DAVIS, Illinois

ELEANOR HOLMES NORTON, District of Columbia	KENNY MARCHANT, Texas
JOHN P. SARBANES, Maryland	JOHN M. McHUGH, New York
ELIJAH E. CUMMINGS, Maryland	JOHN L. MICA, Florida
DENNIS J. KUCINICH, Ohio, <i>Chairman</i>	DARRELL E. ISSA, California
WM. LACY CLAY, Missouri	JIM JORDAN, Ohio
STEPHEN F. LYNCH, Massachusetts	

TANIA SHAND, *Staff Director*

CONTENTS

Hearing held on May 8, 2008	Page 1
Statement of:	
Goff, Oscar Dale, Jr., national president, National Association of Postmasters of the United States; Charles W. Mapa, president, National League of Postmasters; and Ted Keating, president, National Association of Postal Supervisors	85
Goff, Oscar Dale, Jr.	85
Keating, Ted	109
Mapa, Charles W.	95
Potter, John E., postmaster general and CEO, U.S. Postal Service; Dan G. Blair, chairman, Postal Regulatory Commission; and David Williams, Inspector General, U.S. Postal Service	4
Blair, Dan G.	9
Potter, John E.	4
Williams, David	19
Young, William, president, National Association of Letter Carriers; John Hegarty, national president, National Postal Mail Handlers Union; Don Cantriel, vice president, National Rural Letter Carriers Association; and Myke Reid, legislative and political director, American Postal Workers Union, AFL-CIO	37
Cantriel, Don	57
Hegarty, John	47
Reid, Myke	64
Young, William	37
Letters, statements, etc., submitted for the record by:	
Blair, Dan G., chairman, Postal Regulatory Commission, prepared statement of	11
Cantriel, Don, vice president, National Rural Letter Carriers Association, prepared statement of	60
Goff, Oscar Dale, Jr., national president, National Association of Postmasters of the United States, prepared statement of	88
Hegarty, John, national president, National Postal Mail Handlers Union, prepared statement of	50
Keating, Ted, president, National Association of Postal Supervisors, prepared statement of	112
Mapa, Charles W., president, National League of Postmasters, prepared statement of	97
Potter, John E., postmaster general and CEO, U.S. Postal Service, prepared statement of	6
Reid, Myke, legislative and political director, American Postal Workers Union, AFL-CIO, prepared statement of	66
Williams, David, Inspector General, U.S. Postal Service, prepared statement of	21
Young, William, president, National Association of Letter Carriers, prepared statement of	40

THE ECONOMICS OF UNIVERSAL MAIL POST PAEA

THURSDAY, MAY 8, 2008

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL
SERVICE, AND THE DISTRICT OF COLUMBIA,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:14 p.m., in room 2154, Rayburn House Office Building, Hon. Danny K. Davis (chairman of the subcommittee) presiding.

Present: Representatives Davis, Cummings, Clay, Lynch, Marchant, and McHugh.

Staff present: Tania Shand, staff director; Lori Hayman, counsel; Marcus A. Williams, clerk; Jim Moore, minority counsel; and Chris Espinoza, minority professional staff member.

Mr. DAVIS. I apologize to those of you who have been waiting. Normally I am pretty punctual. My father was the most punctual guy that I have ever known, and he always believed in being on time, and that is a trait that I inherited. I will tell you a little story about that at some time, but I won't do it right now.

The subcommittee will now come to order. Welcome, Ranking Member Marchant, members of the subcommittee, hearing witnesses, and all those in attendance. Welcome to the Federal Workforce, Postal Service, and the District of Columbia's oversight hearing on Economics of Universal Mail Post, the Postal Accountability and Enhancement Act of 2006, PAEA.

The chairman, ranking member, and subcommittee members will each have 5 minutes to make opening statements, and all Members will have 3 days to submit statements for the record. Hearing no objection, so ordered.

I will begin. Today the subcommittee is holding an oversight hearing to examine the degree to which the U.S. Postal Service has taken advantage of provisions contained in the Postal Accountability and Enhancement Act of 2006 to generate new revenue and improve operational efficiency.

Through the years, our universal mail system has served our Nation well and has been a world leader in efficiency and economy. In 2007, it delivered over 212 billion pieces of mail to nearly 140 million delivery points. Over \$80 billion was spent in providing these and other postal services required as part of meeting the Postal Service's universal mandate.

Besides delivering the mail in an effective and economic manner, the Postal Service has always maintained the public trust. In 2007,

for the third consecutive year, the respected Ponemon Institute ranked the Postal Service as the most trusted government agency and 1 of the top 10 trusted organizations in the country, public or private. A recent Roper poll found that Americans rate the Postal Service more favorably than any other government agency.

Additionally, the Postal Service closed 2007 with the strongest quarter in its history in terms of mail delivery service scores. I am especially happy to note that following last May's hearing on mail delivery problems in Chicago, the mail service for that area has markedly improved. All this is good news for the Postal Service.

In order to continue making good news and providing universal service at affordable prices, the Postal Service will have to meet several challenges during the next few years. The most immediate concern is the fact that mail volumes are declining even though nearly 5,500 new delivery points are being added each day. Simply stated, this means higher costs to deliver yet less mail.

It is my hope that the PAEA, of which I was a cosponsor, will strongly position the Postal Service for the future by providing a more timely and predictable ratemaking process and, at long last, the opportunity to compete with private companies for increased market share of the shipping business. It is only through an economically vibrant Postal Service, one that can respond rapidly and effectively to changing market conditions, that we can preserve the important American ideal of universal service.

Last February, the subcommittee held an oversight hearing where we learned that the Postal Service and the Postal Regulatory Commission had made significant progress in the implementation of the PAEA. Most importantly, the PRC developed and issued final regulations for a new ratemaking system nearly 8 months prior to the statutory deadline. As a result, new rates for market-dominant products like first-class mail, periodical mail, and standard mail will increase at no more than the rate of inflation this coming Monday. The PRC also approved new rates for competitive shipping services, like Priority Mail and Express Mail, which will take effect on the same day.

The subcommittee will continue to practice active oversight of the Postal Service and their responses to the changes brought about by the PAEA. I am especially looking forward to reviewing the mandated PRC Report on Universal Postal Service and the Postal Monopoly, which is due by December 19th of this year.

I thank you all very much and look forward to hearing testimony from today's witnesses. I now yield to the ranking member, Mr. Marchant, for any opening statement he may have.

Mr. MARCHANT. Thank you, Mr. Chairman. Thank you very much for having this hearing today.

The Postal Accountability and Enhancement Act of 2006 represents the first major postal reform legislation since 1970; so it is not surprising that there have been some growing pains along the way. However, it is important that Congress and this subcommittee continue to ensure the Postal Service is fully implementing the PAEA.

Many of my colleagues with whom I serve on this subcommittee played vital and crucial roles to ensure its passage in the 109th Congress and labored for many years to accomplish this major re-

form for the U.S. Postal Service. We must make sure that we provide the proper oversight during the PAEA's infancy so that the years of effort by this subcommittee and other Members can be fully realized.

Within a few days we will see the very first rate increase under PAEA. I look forward to hearing today from the Postal Regulatory Commission on their assessment of the new price adjustments that the Postal Service has requested. I am also looking forward to a discussion on the Universal Mail Rule, especially in light of the PAEA and the ongoing postal reforms.

One of the great benefits of the act is that it helps create a healthy postal system that can honestly assess what the American citizen truly needs from its Postal Service without having to worry about enterprise viability.

Ultimately, Congress' goal is to have a Postal Service that is financially sound while still providing world-class services to Americans. I appreciate the testimony we will hear today from the witnesses on how we can best accomplish this goal.

Thank you, Mr. Chairman.

Mr. DAVIS. Thank you very much, Mr. Marchant.

Mr. Lynch, do you have an opening statement?

Mr. LYNCH. Very briefly, Mr. Chairman. And I thank you and thank the ranking member as well for holding this hearing.

I, too, am very interested. We are in new territory here with the PAEA, and we want to make sure that the Postal Accountability and Enhancement Act fulfills all of our aspirations for a more competitive and a healthier work situation at the Postal Service. And I guess today is a day that we will just take a benchmark, if you will, on how we are going thus far.

And I just want to lend my voice to those who would encourage management to work more closely with the union, all of the different unions here. We want a Postal Service that continues to have the high reputation that the chairman spoke of earlier, the level of trust that the public has in the institution and in the letter carriers and the clerks and the mail handlers and the supervisors they deal with on a personal basis every single day. We think that therein lies much of the success that the Post Office has enjoyed.

But I am very interested in hearing from our panelists. I want to thank this panel for lending its wisdom to the committee to help us deal with some of the problems that we have.

I yield back the balance of my time.

Mr. DAVIS. Thank you very much, Mr. Lynch.

And, gentlemen, if you would rise and raise your right hands to be sworn in.

[Witnesses sworn.]

Mr. DAVIS. The record will show that the witnesses answered in the affirmative, and let me just make a little brief introduction of our panelists so that we know exactly who they are.

We, of course, have Mr. John Potter, who was named 72nd Postmaster General of the United States of America on June 1, 2001. Mr. Potter has led the Postal Service to record levels of service, efficiency, and performance. Mr. Potter, we are delighted.

Mr. Dan Blair serves as the first chairman of the independent Postal Regulatory Commission, the successor agency to the former Postal Rate Commission. Mr. Blair, we are delighted to have you.

And, Mr. David Williams was sworn in as the second independent Inspector General for the U.S. Postal Service on August 20, 2003. Mr. Williams is responsible for a staff of more than 1,100 employees that conduct independent audits and investigations of a work force of about 700,000 career employees in nearly 37,000 retail facilities.

Gentlemen, we thank all of you for being here with us.

Mr. Potter, we will begin with you.

**STATEMENTS OF JOHN E. POTTER, POSTMASTER GENERAL
AND CEO, U.S. POSTAL SERVICE; DAN G. BLAIR, CHAIRMAN,
POSTAL REGULATORY COMMISSION; AND DAVID WILLIAMS,
INSPECTOR GENERAL, U.S. POSTAL SERVICE**

STATEMENT OF JOHN E. POTTER

Mr. POTTER. Good afternoon, Chairman Davis, Congressman Marchant, and Congressman Lynch.

This past year has been one of profound change for the U.S. Postal Service, one heightened by the effects of a difficult economy.

Despite the difficult environment, our employees have kept their attention on service. As I reported to our Board of Governors yesterday, on-time delivery of first-class mail was very strong in our second quarter. Overnight first-class mail achieved a 96 percent on-time score; 2-day mail rose to 94 percent; and 3-day mail achieved a 92 percent on-time delivery. In all three cases, this was the highest score ever achieved in the second quarter, and the overnight and 2-day scores matched all-time highs for their categories. Customer satisfaction remains strong at 92 percent.

As the chairman mentioned, Chicago service has also shown steady progress. On-time delivery of first-class mail is at 95 percent, a one-point improvement over last year. Two-day achievement was 94 percent, an improvement of 13 points compared to a year ago. And on-time delivery of 3-day mail was 90 percent, which is at 21 points better than was achieved last year. Our entire Chicago service team has done an exceptional job, and I know they are working to keep service strong.

Despite our service success, the economic slowdown has severely strained our finances. As I reported to our Board of Governors yesterday, we ended our second quarter with a net loss of \$707 million for the quarter. Mail volume for the quarter was down by 3.3 percent, for a year-to-date decline of 3.1 percent. If this trend continues, it will be our largest annual volume decline ever.

I am very proud of the effort of the entire postal team. In meeting customer needs during this difficult period, every employee in every function, as well as the unions and associations that represent them, have kept their eyes on service as they helped us reduce expenses and operate as efficiently as we possibly could. This is critical in an environment in which prices for 90 percent of our products are capped, but major costs such as fuel are not.

Long-term success in serving our Nation depends on a strategy that balances efficiency and growth. This was recognized by the

Postal Act of 2006, the PAEA, which increased our pricing flexibility. We have begun to take full advantage of the new law by offering attractive and innovating published pricing for our shipping services. We have priced these products to sell because there is significant opportunity to grow in this area. We have introduced volume pricing and savings through on-line and corporate account payment options for shipping. For Express Mail we have expanded our overnight network and moved to zone-based pricing, consistent with the rest of the industry. We have added a larger Priority Mail flat-rate box that also offers reduced postage for overseas military addresses, and consumers are benefiting from the convenience and value of the Forever stamp.

We are all anticipating the next step in pricing, negotiated service agreements and contract pricing. We are working with our customers and trying to navigate the regulatory process to make this possible. As with any new strategy, for any new business, benefits do not come without risk. It is important for all of our stakeholders to understand that there must be some tolerance for risk as we move forward in this important area.

The Postal Service will continue to evolve in support of providing affordable universal service to every American through innovation, efficiency, and, above all, service.

I would be pleased to answer any questions that you may have. Thank you, Mr. Chairman.

Mr. DAVIS. Thank you very much, Mr. Potter.

[The prepared statement of Mr. Potter follows:]



STATEMENT OF
POSTMASTER GENERAL/CEO
JOHN E. POTTER
BEFORE THE
SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE,
AND THE DISTRICT OF COLUMBIA
OF THE
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
UNITED STATES HOUSE OF REPRESENTATIVES
WASHINGTON, DC

MAY 8, 2008

Good afternoon, Chairman Davis, Congressman Marchant, and members of the Subcommittee. As I mentioned to you when we met in February, the Postal Service has entered a period of profound change. Despite the magnitude and pace of these changes, and the effects of an extremely difficult economy, our employees have continued to provide the very highest levels of service and customer satisfaction to the nation we serve. They have also made the Postal Service the most-trusted government agency and one of the ten most trusted organizations in the nation.

As I reported to our Board of Governors at yesterday's meeting, on-time delivery of First-Class Mail set new second-quarter records. First-Class Mail with a next-day delivery commitment held at a 96 percent for the fourth consecutive quarter – marking one full year at this highest level ever; two-day mail rose to 94 percent, a new high; and three-day mail climbed to 92 percent, four points above the previous quarter. Service performance was reflected in customer satisfaction, with 92 percent of residential customers rating their experience with the Postal Service as excellent, very good, or good.

I am particularly pleased that service in Chicago has shown strong and steady progress over the last year. For quarter two, on-time delivery of overnight First-Class Mail is at 95 percent, up five points. Two-day performance is at the national average of 94 percent, up 13 points. And three-day mail has reached 90 percent, an improvement of 21 points.

Our entire Chicago service team, led by District Manager Gloria Tyson, has done an exceptional job. I know they will keep Chicago service strong as they work to align Chicago service performance and national figures in all three of these delivery categories.

While service has been solid, a weak economy continues to place a severe strain on our finances:

- The current economic downturn was led by weakness in the financial, credit, and housing sectors – traditionally strong drivers of mail volume.
- Business and consumer spending is off, resulting in less spending on mailing and shipping, with effects being felt throughout the entire delivery industry.
- Standard Mail, our volume leader, which had experienced a long and steady period of growth, is extremely sensitive to economic trends and recorded a second-quarter volume decline compared to the same period last year.
- Total mail volume, also compared to the same period last year, was down by 3 percent during the first quarter, and fell again in quarter two by 3.3 percent – among of the largest declines ever.
- A continuing decline in mail volume, coupled with rising costs and a growing delivery network, has resulted in less revenue per delivery point;
- With the price of oil exceeding \$100 a barrel, we have seen a huge increase in the costs of fueling more than 200,000 vehicles.
- Similarly, the accelerated funding of statutorily defined and growing retiree health benefits represents a significant cost driver.

Each of these factors contributes to a widening gap between costs and revenue. This is particularly challenging because costs are growing at a rate that far exceeds the price cap that applies to 90 percent of our products.

I am proud of the effort of the entire postal team in meeting the needs of our customers during this difficult period. Every employee in every function, as well as the unions and associations that represent them, have kept their eyes on service as they have helped us to reduce expenses, operate more efficiently and prepare for a stronger future:

- New collective-bargaining agreements protect the economic interests of our employees, while adding necessary operating flexibility and helping to limit growth in health-benefit costs.
- Throughout the organization, our people continue to innovate as they improve key processes and find new ways to offset rising costs in operations, transportation, and administrative functions.
- Through these and similar actions, the Postal Service is on track to achieve an unprecedented ninth consecutive year of productivity growth.
- Our deployment of the Flats Sequencing System, which is proceeding on schedule, will bring added efficiency to delivery operations, and help to manage costs in this extremely price-sensitive product category.
- With the strong involvement of customers, we are preparing for the full rollout of the Intelligent Mail Barcode next May – to streamline and simplify mail preparation, acceptance, processing, and delivery activities, as well as enhance the exchange of information between the Postal Service and mailers.

Despite the best efforts of our employees, the outlook for the remainder of 2008 continues to be troubling. Next week's price changes will generate an additional \$700 million in revenue through the end of this fiscal year, but this will be insufficient to offset rising costs.

And while a significant portion of the current volume declines is directly attributable to a weak economy, this may, to a certain extent, mask more profound and longer-term changes in mail use patterns – particularly among what the Postal Accountability and Enhancement Act refers to as our "market-dominant products," or, simply put, our mailing services.

These include the diversion of First-Class transactional mail to non-mail channels; customers "trading down" from First-Class Mail to less-profitable Standard Mail; and a reduced reliance on Standard Mail as marketers, reacting to the economy, direct resources to mass channels that may not offer the targeting or effectiveness of Standard Mail, but whose costs may be less. Our historic universal service mandate – a key public policy goal – is provided by products within our mailing services portfolio.

Long-term success in serving our nation depends on a strategy that complements efficiency with growth. This is a situation that was recognized and anticipated by the Postal Act of 2006, which increased the Postal Service's pricing and marketing flexibility in the "competitive products" category – our shipping services. Income from this portion of our business – Express Mail, Priority Mail, ground packages, and some international mail – is intended to contribute to the costs of our universal service mandate.

We have taken full advantage of the new law by offering attractive and innovative published pricing for our shipping services. We have priced these products to sell – while satisfying the related requirements of the Act – because we recognize the significant potential for growth in this product area.

- This includes volume pricing, attractive online and corporate account payment options, and the potential for rebates when volume exceeds defined thresholds.
- Our premier Express Mail product now offers an expanded overnight network and industry-standard zone-based pricing. This reduces the costs of shipping to many nearby locations and, for some weights, offers a price advantage, no matter what the distance.
- Responding to customer needs, we have introduced a larger Priority Mail Flat-Rate box, with a reduced rate for overseas military addresses.
- New pricing incentives, combined with an exceptional degree of reliability, have increased the value of our high-volume, last-mile Parcel Select service for all of our partners, including leading private-sector shipping companies.
- A new, value-based approach to pricing is also making our first-mile Package Return service a more popular choice than ever.

We are also looking forward to the opportunity to negotiate and implement contract pricing, an important new tool available through the new postal law. We are continuing our work with the Postal Regulatory Commission to prepare for contract pricing in both our mailing and shipping services.

With the fundamental changes resulting from the enactment of the Postal Act of 2006, including its call for even greater levels of transparency, we are devoting more resources and working more closely than ever with the organizations charged with oversight of the Postal Service to meet their expanded information needs. These include, among others with more specialized requirements, the new and expanded Postal Regulatory Commission, the Government Accountability Office, the Office of Inspector General, our own Board of Governors and, of course, the United States House of Representatives and the United States Senate.

Despite a difficult year, the Postal Service continues to adapt and change to protect its ability to provide affordable, universal service to everyone in America. Our focus will not waver as we work to protect the unique value of the mail through innovation, efficiency and, above all, service.

Thank you for the opportunity to discuss these issues with you today. I am grateful for your continuing support of a sound and financially independent Postal Service. I would be pleased to answer any questions you may have.

#

Mr. DAVIS. And we will go to Mr. Blair.

STATEMENT OF DAN G. BLAIR

Mr. BLAIR. Good afternoon, Mr. Chairman, Ranking Member Marchant, and members of the subcommittee. I appreciate your continuing interest in and oversight of the Commission's work. I have a longer written statement that I would ask be included for the record.

It has been a productive 2008 for the Commission. You are familiar with our efforts last year in implementing the PAEA, and 2008 represents the first year the Postal Service and the Commission have operated under the new rules. Since I last appeared in February, the Commission has moved forward in reviewing proposed rate adjustments for both market-dominant and competitive postal products. In addition, we completed our annual compliance determination.

In brief, we found the Postal Service's rate adjustment request consistent with the new regulatory requirements. Those new rates go into effect Monday. Some may object to annual increases in postal prices; however, the act granted the Service this new flexibility. Importantly, having these new rules in place allowed the Service to seek adjustments under the new system rather than filing an old-style cost-of-service rate case. As Mr. Potter pointed out in his written statement, this allows an infusion of \$700 million this fiscal year. Had an old-style case been litigated, increases sought could have been much higher than the CPI-based rate adjustments to be implemented next week, and they likely would not have taken place until late 2008 or early 2009.

One aspect of the new regulatory framework is the annual compliance determination. As time goes on, I believe this process will prove to be one of the most important aspects of the new regulatory framework. In this year's compliance determination, we reviewed the information submitted for 2007 by the Postal Service. The Commission determined that the Service made a good first effort to provide us with essential costs in volume data. Improvement will be needed in some areas, and to that end we anticipate issuing regulations this summer addressing what information should be submitted by the Service in its annual compliance report.

In addition to this March trifecta, the Commission last year issued a new strategic plan, adopted a redesigned Web site, and continued its consultations with the Service on performance goals as well as network alignment. We began work on the cooperative mail study and new rules governing our complaint procedures. Further, we are working on meeting deadlines for issuing accounting principles and practices for the Competitive Products Fund as well as completing the Universal Service Obligation study. This report, asked for by Congress, will reflect the fairness, objectivity, and substance that the Commission is well known for. Both of these will be ready by the December 19th deadline. As you can see, the Commission has been a hub of activity, and we look forward to continuing our work with the Services as we proceed with PAEA implementation.

On a last note, I would like to thank, on behalf of my fellow Commissioners, the Commission staff for their hard work and ef-

fort on these important projects. They are truly the Commission's most significant asset, and none of these results could have been achieved without them.

I would be pleased to answer your questions.

Mr. DAVIS. Thank you very much, Mr. Blair.

[The prepared statement of Mr. Blair follows:]



Testimony of
The Honorable Dan G. Blair, Chairman
On Behalf of the
Postal Regulatory Commission
Before the
U.S. House of Representatives
Committee on Oversight and Government Reform
Subcommittee on Federal Workforce,
Postal Service, and the District of Columbia

May 8, 2008

Thank you Chairman Davis, Ranking Member Marchant, and members of the Subcommittee. I am always pleased to update the Subcommittee on the activities of the Postal Regulatory Commission. As you know, the Postal Accountability and Enhancement Act (PAEA or Act) significantly strengthened the Commission's oversight and regulatory responsibilities. Congress envisioned an effective regulator, and through its various initiatives and actions over the past 17 months, the Commission has marked its transformation to regulator from ratemaker.

It has been just over two months since I testified before the Subcommittee's last postal oversight hearing on February 28. During this nine week period, the Commission verified the lawfulness of the Postal Service rate adjustments for market dominant and competitive products; issued its determination of compliance for fiscal year 2007 postal operations and finances; completed work on mail classification matters, including a negotiated service agreement; continued consultation with the Postal Service on service performance measurement issues; initiated proceedings to obtain public input involving the Postal Service's universal service obligation and the cooperative mail rule; and testified before this panel on April 3 and April 24, as well as at a March 5 hearing before the Senate Postal Subcommittee. We also launched our redesigned website.

The Postal Regulatory Commission's role is to ensure transparency and accountability in postal operations, services, and finances. We are the window by which Congress and the American public have an unvarnished view of the Postal Service. Our mission is clear: we provide a regulatory environment to foster a robust postal system.

The Commission is proud of its efforts to complete those requirements of the Act by specific deadlines. One of our most time-sensitive and critical mandates was establishing new ratemaking systems for market dominant and competitive products. We finished this task eight months ahead of the statutory deadline, which allowed the Postal Service to move forward with inflation-based rate adjustments.

RECAP OF 2007 COMMISSION ACTIVITIES

Having these rules in place on October 29, 2007, allowed the Postal Service to use the flexibility provided by the PAEA to adjust rates under the new system as opposed to filing under the 1970 law. Both market dominant and competitive filings were explored and resolved within the timeframes we established. Although the Commission found that one workshare discount needed adjustment; this was done without delaying or disrupting the process.

Implementing the new ratemaking systems ahead of schedule was just one of the significant Commission accomplishments achieved in 2007. We also finished the following activities during the first year of the PAEA:

- The Commission consulted with the Postal Service regarding the development of modern service standards for market dominant products. To guarantee public participation in the process, the Commission held three field hearings outside of

Washington, DC, where witnesses shared their expectations for service standards and ratemaking regulations. In addition, we solicited written comments from mailers and consumers to assure a broad cross-section of opinion informed our input. The Postal Service issued new standards in December 2007.

- On February 26, 2007, the Commission issued its opinion and recommended decision on postal rate and fee changes in the last omnibus rate case considered under the old Postal Reorganization Act of 1970. Related to this action, was the completion and issuance of Recommended Decisions on three requests for reconsideration as part of the R2006-1 omnibus rate case.
- In addition to final action on the R2006-1 case, we completed other pending cases under the old law, such as rendering a final decision on the classification for stamped stationery and our decision affecting Repositionable Notes classifications and rates; and the Commission's decision in approving a Negotiated Service Agreement (NSA) with Bank of America.
- We completed the first new budget submission cycle, which was required by the PAEA to insulate the Commission, as the Postal Service's regulator, from the regulated entity. We are now a part of the President's budget proposal and authorized through the annual congressional budget and appropriations process.
- To better align staff and resources with the new law, the Commission examined its internal structure. We reorganized the Commission by establishing an Office of Public Affairs and Government Relations and added a new Auditing and Costing Division to the revamped Office of Accountability and Compliance. We also met the deadline imposed by the Act in creating a new Office of the Inspector General.
- The Commission also began work on its newly redesigned webpage last year. Unveiled last month, the new site offers timely and better transparency of postal data and developments in the postal community. As the Commission implements its new responsibilities under the PAEA, our website will be the focal point of information for postal customers on our progress and that of the Postal Service to the users of the mail system.

We are now building on these achievements to ensure future success in implementing the PAEA. As the Subcommittee may recall from my testimony two months ago, the Commission has an extremely full agenda in 2008.

RATE ADJUSTMENTS

As I previously stated, in early February, the Postal Service filed rate increases for market dominant products, which put into motion the regulations finalized last October. Following a public comment period, the Commission unanimously verified on March 17,

2008, that the increases for market dominant products were, on average, under the rate of inflation for all classes of mail (R2008-1).

As we were completing work on the market dominant filing, we were also considering the Postal Service's request for rate adjustments for competitive products. Following a period for public comment, the Commission verified the price changes sought by the Postal Service for its competitive products, which include Priority Mail, Express Mail, Parcel Select, Parcel Return Service, and selected international mail offerings. Our review determined that the filing met the statutory and regulatory requirements that each competitive product must recover its direct costs; that competitive products, as a group, must pay their share of institutional costs, which the Commission set at 5.5 percent; and that market dominant products do not cross-subsidize competitive products.

Planned adjustments for both market dominant and competitive products will become effective on May 12, 2008.

ANNUAL COMPLIANCE DETERMINATION

Further, the Commission issued on March 27, 2008, its first Annual Compliance Determination on the performance of the Postal Service for fiscal year 2007. This Determination was prepared after a 90-day review of the Postal Service's Annual Compliance Report and supplemental material, evaluation of public comments, and an assessment of data and information provided during technical conferences. Our Determination gives a clear picture of the Service's financial data, which in turn will assist the Commission to improve the quality and timeliness of data filed by the Postal Service with the Commission.

Our Compliance Determination found that while the Postal Service's revenue increased, its volume decreased. This underscores the need for more robust performance measurement reporting by the Postal Service in the future. Our report may be found on the Commission's website, www.prc.gov.

I would like to share with the Subcommittee a few of our *Principal Findings*:

- The Postal Service had a \$1.6 billion profit on operations; however, statutory funding requirements for retiree health benefits resulted in a net loss of \$5.1 billion.
- Total First-Class Mail volume declined by 1.6 percent and First-Class single-piece volume dropped 4.5 percent to continue a nine-year decline.
- Five market dominant postal services did not cover their attributable costs: Periodicals; Single-Piece Parcel Post; Media/Library Mail; Registered Mail; and First-Class Mail International (inbound).

- Two competitive postal services did not cover their attributable costs: Parcel Return Service and International Surface Parcel Post at non-Universal Postal Union (UPU) rates (inbound).
- Competitive products, as a group, slightly exceeded the requirement that they contribute at least 5.5 percent of Postal Service institutional costs.
- The five current market dominant Negotiated Service Agreements (NSAs) provided a \$2.5 million contribution.
- Our assessment discusses service performance in some detail. For fiscal year 2007, the data reported service performance for less than 20 percent of the mail. This will be improved as planned new performance measurement systems are implemented.

The annual compliance determination process should serve as an action-forcing mechanism in shedding light on postal operations, services, and finances. To assist the process, the Commission plans to propose Periodic Reporting Rules to help us prepare the annual compliance determination. These rules will specify what information the Postal Service must report to the Commission on a regular basis – monthly, quarterly, and annually – to enable us to carry out our broad oversight responsibilities. Given the current economic downturn, the Commission will be watching postal finances carefully. This and future compliance determinations should provide Congress with the appropriate information it requires in order to conduct meaningful oversight in assessing potential risks to the long-term health of the Postal Service.

UNIVERSAL SERVICE OBLIGATION AND POSTAL MONOPOLY STUDY

Another critical undertaking this year by the Commission is our work on the Universal Service Obligation study (§ 702 of the PAEA), which I know is of interest to Members of this Subcommittee. The Commission's review will allow us to evaluate whether to recommend on any changes to universal service and the postal monopoly.

Last summer, Commission staff began developing the framework of our Request for Proposals (RFP) seeking a consultant to assist us in gathering information for this study. As part of a public competition, the Commission received three proposals in response to its RFP issued last November. The Commission selected the George Mason University School of Public Policy to support completion of the study due to the President and Congress by the end of the year.

On April 18, 2008, we initiated a proceeding to solicit the views of the Postal Service and other federal agencies, commercial mailers, and other interested parties for their expectations of universal postal service, postal monopoly, and the mailbox monopoly.

Like the public field hearings we conducted last summer, we have scheduled similar field hearings outside of Washington, DC to solicit views. We will visit Flagstaff, Arizona; St. Paul, Minnesota; and Portsmouth, New Hampshire over the next two months. We will augment our public hearings with an assessment of the needs and expectations of the general public concerning universal postal service, especially single-piece mailers, small nonprofit mailers, and small business mailers. We are also reaching out to the Washington-based mailing and postal community through an open workshop on June 12 at the Commission.

We are mindful that the Postal Service is a key stakeholder in this study. We have been working with them through our monthly consultation process since Congress tasked the Commission to look at possible changes to the universal service obligation and the postal monopoly.

NETWORK REALIGNMENT

Of great interest to Congress is the Postal Service's upcoming report on its network realignment plans and how the plans will help it meet its service performance goals. The PAEA requires the Service to consult with the Commission before submitting this plan to Congress by June 20, 2008 (§ 302 of the PAEA). We have also met with the Government Accountability Office, which has reviewed this aspect of postal operation and management extensively. We are also relying on the Commission's 2006 advisory opinion (N2006-1) issued in the evolutionary network development proceeding that provided suggestions for improving this process, especially in the area of public participation.

SERVICE STANDARDS/PERFORMANCE GOALS

Adjunct to network realignment is the Commission's consultation on service standards and performance measurements and goals. We are now in the second phase of our consultation – establishing goals for performance measures and network reorganization that are due to Congress this June. The adoption of performance measurements and goals will allow mailers to better gauge service against the performance standards. Our consultations have focused on varied topics, but one area of great importance is the timely implementation of and mailer acceptance of the Postal Service's Intelligent Mail Barcode (IMB) standards. The Postal Service has sought the Commission's formal approval to utilize a hybrid measurement system to track its progress in meeting its performance goals.

COMPLAINT PROCESS

Other regulations that the Commission is working on are those regarding complaints. Our existing complaint system will become better aligned with the PAEA (39 U.S.C. § 3662), which requires the Commission to act within 90 days of receiving a complaint. Failure to act within 90 days will be treated as if the Commission had denied

the complaint. We anticipate issuing the proposed rules on complaints this summer, as well as proposed rules on our new subpoena power and rules for confidentiality.

ACCOUNTING PRINCIPLES

The Commission is also reviewing public comments on the recommendations made by the U.S. Department of Treasury in its report on accounting principles and practices in the operation of the Competitive Products Fund and the assumed Federal Tax liability (39 U.S.C. § 2011(h)(1)(B)). Our review will be followed by a rulemaking proceeding to develop regulations governing the Fund and establish rules for determining the assumed Federal income tax on competitive products income. Competitive postal products offered in competition with private firms, such as Federal Express and United Parcel Service, make up only about one percent of postal volume, and yet contribute approximately 11 percent of Postal Service revenues. These regulations are to be completed by this December unless the Commission and the Postal Service agree to a later date.

PERIODICALS STUDY

The PAEA also requires the Commission to conduct a number of studies, including two studies of interest to the Subcommittee and Committee. We have initiated discussions with the Postal Service on a joint Commission-Postal Service review of Periodicals costs that is required by the PAEA (§ 708 of the PAEA). Although the Act did not establish a deadline for this study, I believe it is justified to undertake the review now.

COOPERATIVE MAIL STUDY

As the Chairman knows, the Commission is reviewing the operation of the cooperative mail rule and its fundraising exception. Through the PAEA, Congress asked the Commission to look into whether sufficient safeguards exist to protect against abuse and deception of consumers (§ 711 of the PAEA). Since the April 24 hearing before this Subcommittee, the Commission has received additional correspondence from the Postal Service. In addition, on April 22, we issued a notice (PI2008-4) seeking public comment on the cooperative mail rule and its fundraising exception.

INTERNATIONAL MAIL

Another important change mandated by the PAEA enhances the Commission's role regarding international postal arrangements. The Commission has participated in the Universal Postal Union working groups and committees for many years, but our role has been statutorily strengthened. We are coordinating very closely with the Department of State, the Postal Service and other agencies such as the Department of Commerce and the Office of the U.S. Trade Representative.

We are also engaging the private sector to hear their concerns on international postal issues. On March 25, the Commission participated in the first meeting of the Federal Advisory Committee on International Postal and Delivery Services. The Department of State established this Committee to provide advice and input as it sets the United States international postal policy. The Commission is represented along with other key officials representing public and private sector interests.

Lastly, we are busy forging stronger channels of communication with other postal regulators. Last month, the Commission hosted postal regulators from the European Commission, which proposes and implements policies for the European Union, to discuss our respective experiences in postal reform. The Commission will be represented at the UPU Congress this summer, where important decisions on terminal dues and initiatives to improve quality of service will be decided.

In summary, the Commission understands and appreciates that these are challenging times. The Postal Service faces declining volume and a tough economy that has hit hard at some of the Service's key economic sectors. This reinforces the need for an effective regulator to provide the transparency and accountability mandated by the PAEA.

I would be happy to respond to any questions.

Mr. DAVIS. And we will proceed to Mr. Williams.

STATEMENT OF DAVID WILLIAMS

Mr. WILLIAMS. Mr. Chairman and subcommittee members, I am testifying today concerning significant economic challenges and opportunities facing the Postal Service. I would like to focus on four areas within this large topic.

First, strengthening revenue operations presents significant opportunities for the Postal Service. Management must collect what it is owed, while ensuring that mailers are not involuntarily subsidizing competitors or others.

The Postal Service needs to update and strengthen its data streams and analytical disciplines for pricing and product costing. Discounts must incentivize mailers to achieve the lowest combined operational costs, and detailed, accurate product pricing is essential to structure work-sharing discounts. Additional data is needed, and existing stovepiped data in programs must be integrated and used by marketing for analysis. Without this, discounts such as work sharing and negotiated service agreements cannot be entered into with confidence to ensure fairness and viability.

Also, customer needs must be better assessed, and private-sector-styled sales incentives should be explored, and marketing should expand its search for products and market-sector penetration strategies. And, last, the Postal Service should analyze its advertising investments to see if they are achieving desired results.

The second challenging area is imagining and planning for a substantially changed business environment with the implementation of several current technological advances. The flats sequencing system will complete the delivery point sequencing improvements begun with letter mail. Intelligent mail bar-coding can provide vital internal performance data and give customers long-sought-after data about the location and delivery of their mail.

And, last, seamless acceptance can provide a more convenient, streamlined virtual acceptance process.

As these systems come on line, there will be major impacts to the network and facilities, staffing size and skill needs, revenue assurance and customer service. The Postal Act and current economic conditions dictate that these efficiencies be exploited quickly, and risks are dealt with decisively to take full advantage of these investments.

Infrastructure realignment represents the third great challenge and opportunity. To date, the Postal Service has used an incremental approach to gain network efficiencies. This approach incorporates flexibility and anticipates changes requiring rapid response. The Postal Service has resisted committing to a rigid comprehensive plan featuring elaborate sequencing that would be cumbersome to amend. In other words, the plan resembles more an order of battle than an enterprisewide blueprint.

Today's dynamic environment presents special challenges to realignment, including an ongoing information age revolution and an economic downturn, making it increasingly difficult to forecast mail mix and volume; significant career uncertainties for employees; the evolving commitment to incentivize mailer partnerships in search of lowest combined costs; needed enterprise resilience to respond to

natural disasters and terrorist attacks; and integrating the technological advances I mentioned earlier.

For infrastructure realignment to succeed without business disruptions, an enduring alliance is needed between the Postal Service and the Congress. Though realignment is absolutely required, there are substantial risks. For example, if realignment stalls, a protracted anemic staffing of an oversized network would predictably cause operational and customer service degradation.

The last challenge involves the Postal Service's prepayments to the Retiree Health Benefits Fund. The prepayments of over \$5 billion a year are greater than the Postal Service's traditional net income. These prepayments are amortized over a short 10-year period and are not tied to the Postal Service's ability to pay. Borrowing to pay a debt that will be incurred in the future is an unusual practice. I encourage the consideration of indexing the payment to the Postal Service's revenue or economic factors, or extending the amortization period.

In conclusion, the Postal Service is about to experience the curse of living in interesting times. At the horizon is a different Postal Service, and one that I believe will be better. The Postal Act positions the Postal Service to complete its transition and become the successful business that Congress envisioned in 1970. The recent imperatives contained in the Postal Act for that migration have presented the Postal Service with readiness challenges. I believe that senior leadership and the work force are capable and poised to meet those challenges.

Thank you.

Mr. DAVIS. Thank you very much.

[The prepared statement of Mr. Williams follows:]

**Hearing before the Subcommittee on Federal Workforce,
Postal Service, and the District of Columbia
Committee on Oversight and Government Reform
United States House of Representatives**



Oral Statement

On

“The Economics of Universal Mail Post PAEA”

**David C. Williams
Inspector General
United States Postal Service**

Mr. Chairman and subcommittee members I am testifying today concerning significant economic challenges and opportunities facing the Postal Service. I would like to focus on four areas within this large topic.

First, strengthening revenue operations presents significant opportunities for the Postal Service. Management must collect what it is owed, while ensuring mailers are not involuntarily subsidizing competitors or others.

The Postal Service needs to update and strengthen its data streams and analytical disciplines for pricing and product costing. Discounts must incentivize mailers to achieve the lowest combined operational costs and detailed accurate product pricing is essential to structure worksharing discounts. Additional data is needed and existing stove piped data in programs must be integrated and used by marketing for analysis. Without this, discounts such as worksharing and Negotiated Service Agreements cannot be entered into with confidence to assure fairness and viability.

Also, customer needs must be better assessed, private sector styled sales incentives should be explored, and marketing should expand its search for products and market sector penetration strategies. Lastly, the Postal Service should analyze its advertising investment to see if they are achieving desired results.

The second challenging area is imagining and planning for a substantially changed business environment with the implementation of several current technological advances. The Flats Sequencing System will complete the delivery point sequencing improvements begun with letter mail. Intelligent Mail Bar-coding can provide vital internal performance data and give customers long sought after data about the location and delivery of their mail. Lastly, Seamless Acceptance can provide a more convenient streamlined virtual acceptance process.

As these systems come on line, there will be major impacts to the network and facilities, staffing size and skill needs, revenue assurance, and customer service. The Postal Act and current economic conditions dictate that these efficiencies be exploited quickly and risks are dealt with decisively to take full advantage of these investments.

Infrastructure realignment represents a third great challenge and opportunity. To date, the Postal Service has used an incremental approach to gain network efficiencies. This approach incorporates flexibility and anticipates changes requiring rapid response. The Postal Service has resisted committing to a rigid comprehensive plan featuring elaborate sequencing that would be cumbersome to amend. In other words, their planning resembles an order of battle as opposed to an enterprise wide blue print.

Today's dynamic environment presents special challenges to realignment, including:

- An ongoing information age revolution and economic downturn making it increasingly difficult to forecast mail mix and volume.
- Significant career uncertainties for employees.
- The evolving commitment to incentivize mailer partnerships in search of lowest combined costs.
- Needed enterprise resilience to respond to natural disasters and terrorist attacks.
- And integrating of the technological advances, I just mentioned.

For infrastructure realignment to succeed without business disruptions, an enduring alliance is needed between the Postal Service and the Congress. Though realignment is absolutely required, there are substantial risks. For example, if realignment stalls, a protracted anemic staffing of an oversized network would predictably cause operational and customer service degradation.

The last challenge involves Postal Service prepayments to the retiree health benefits fund. The prepayments of over \$5.0 billion a year are greater than the Postal Service's traditional net income. These prepayments are amortized over a short ten year period and are not tied to the Postal Service's ability to pay. Borrowing to pay a debt that will be incurred in the future is an unusual practice.

I encourage consideration of indexing the payment to Postal Service revenue or economic factors, or extending the amortization period.

In conclusion, the Postal Service is about to experience the curse of living in interesting times. At the horizon is a different Postal Service and one that I believe will be better. The Postal Act positions the Postal Service to complete its transition and become the successful business that Congress envisioned in 1970. The recent imperatives contained in the Postal Act for that migration have presented the Postal Service with readiness challenges. I believe the senior leadership and the workforce are capable and poised to meet those challenges.

Thank you.

Mr. DAVIS. And I want to thank each one of you gentlemen for your testimony.

Mr. Potter, perhaps I will begin with you. I think I heard you mention rating scores of 90 or above a number of times, and I want to understand what that really means. I know in Missouri, where Representative Clay comes from, 90 is generally considered an A. Is that what 90 means in rating the postal production and activity?

Mr. POTTER. Those ratings are done by an outside firm, IBM, that puts mail into mailboxes and then tests how quickly it gets to a destination, and it is a raw score. They look at how long it takes to go from one point to the other. They have people who drop the mail, non-postal employees, and they have people who measure and give them information about when mail is received in their mailbox at their homes. And they are independent non-postal people. So, it is an independent, accurate measurement of how quickly mail moves through the system, and so I think you can have confidence in those numbers.

Mr. DAVIS. So any way you cut it, it means you are doing pretty good.

Mr. POTTER. I think so.

Mr. DAVIS. I would agree. And I want to congratulate you and the Postal Service again and all of its employees for the tremendous and outstanding work that you are doing.

Let me ask you, though, in your opinion, how important is this concept of universal service to the future of postal operations and the Postal Service?

Mr. POTTER. To me, personally, having grown up in a postal family, my father was in the Service for 40 years, universal service is what we are all about.

When I look back at the history of the Postal Service, the Founding Fathers saw the need to connect every American and provide them an opportunity to communicate with one another, and also to participate in this greatest economy in the world. And time and again we have seen Congress act to make sure and protect universal service. It wasn't that long ago, given our history in the 1900's, early 1900's, that the Congress moved from delivery of mail and changed the definition. Up until that time, it was anything up to 4 pounds. Anything beyond that was done by others. But the Congress recognized at the time that there were communities in rural areas and in some inner-city areas that were not getting the same type of delivery as others, with the same frequency, nor for the same price, and they turned to the Postal Service to allow everyone to participate on an equal footing in communication as well as in our great economy through the receipt of packages. So, I think it is the core of who we are and what we are all about, and I think it is vitally important.

Mr. DAVIS. Let me ask you then, how impactful do you think that the new rate structure has been in helping the Service improve in processing and delivering the mail?

Mr. POTTER. I think we are just beginning to see the tip of the iceberg here when it comes to how that will be helpful. When I look at the pricing, the thing that has been very helpful, as a result of the efforts by Chairman Blair, his fellow Commissioners, and the entire Postal Regulatory Commission, was to enable us to move

quickly to change rates this year. It is going to help us, given the fact that we find ourselves in a tough economy; we are able to make an adjustment.

It is going to create a challenge in the sense that going forward we all, meaning everyone inside the Postal Service, is going to have to figure out how to keep rates below the rate of inflation. But when we had this discussion in years past, we kind of looked at it as a business imperative. If we had rates that were rising precipitously, all we would do would be to drive mail away from hard copy and probably move it to electronic medium or some other way of moving. So we are embracing the notion of a rate cap, and that is going to challenge us, and challenge us to work smarter, work together to overcome that.

When it comes to packages, we are for the first time going to be able to take advantage of new package rate flexibility, and it is going to be reflected in prices that people are going to pay beginning Monday. There are going to be some discounts for volume, there is going to be on-line pricing that is different from our window pricing.

And, for example, we are trying to do things that are a little unique. We were the first to come out with a flat-rate box for Priority Mail. One of our competitors matched it. Now we are increasing the number of sizes that we have to make it even more convenient for customers, because we found out that having done that in the past, it works. And we are lowering the price of flat-rate boxes going overseas to overseas military because we recognize how vitally important those packages are to those who are serving America overseas, and we want to do our small part to help them.

So in all, Mr. Chairman, as I said earlier, I think we have just begun to scratch the surface, but I look forward to taking full advantage of the pricing flexibility afforded by the new law.

Mr. DAVIS. Thank you very much.

Mr. Blair, let me just ask you, one of the requirements of the PAEA was for the Postal Rate Commission to evaluate nonpostal services offered by the Postal Service and determine if such services should continue. Could you give us an update on the progress of that study?

Mr. BLAIR. We are engaged in that process of evaluating non-postal and postal services, and we have docketed this issue. As it stands right now, we have asked the Postal Service to provide us with fuller information as to what that inventory might be. I understand they are going to be asking us for some clarification. So the dialog is continuing, and this process is continuing. I understand we have a December 20th deadline to complete this work, and we will have this done on time.

Mr. DAVIS. Thank you very much.

I am going to shift now to Mr. Marchant and give him an opportunity for some questions.

Mr. MARCHANT. Thank you, Mr. Chairman.

A handful of State legislatures around the country have seen an introduction of bills called "do not mail" bills. While none of these bills have become law, what do you see? So far, I don't think we have a Federal law that has been introduced. What do you see as the possible impact of some of those laws being put into place?

Mr. POTTER. Well, first of all, let me just say that I am adamantly opposed to any law that would have a do not mail requirement—or impose do not mail on us or any user of the mail.

That being said, the significant downside to that, I think, I would venture to say that up to \$6 billion in revenue would be at risk in a very short period of time, and that it could have significant impact on Postal Service finances.

At the same time I say that, I think that part of the issue here is that the full story is not being told. In that regard, I think that people are looking at paper and its impact on the environment, and they are dramatically overstating the impact. It is a renewable resource. Many of our mailers use recycled materials. We are the first organization to have cradle-to-cradle packaging for the packaging that we provide. So I think we have an industry that is extremely sensitive to the environment and has made huge progress in terms of meeting and conforming to products that would be environmentally friendly.

I know of a number of different groups within the mailing industry, mailers, who have voluntary programs with customers who can take their names off of mailing lists, and I think it would be detrimental to just do something via the law. I don't think it is necessary, and I think the industry should be given the opportunity to police itself.

Mr. MARCHANT. Thank you.

Mr. Williams, last fall we heard from small periodical publishers and printers that were experiencing a fairly significant rate shock in 2007. How is this class of mail being treated in this rate increase? And whichever one of you can answer that.

Mr. BLAIR. I will take that on.

Under this new rate increase, the Postal Service proposed rather modest increases for periodicals as a whole, and it came within as a class under the 2.9 percent cap. So periodical mailers generally shouldn't be seeing the kind of rate shock that has been experienced in the past under the old omnibus litigated cases.

Mr. POTTER. Basically, what we did is an across-the-board increase for periodicals because of the fact that we had just raised rates on them last July, and because of the significant changes that were built into that last rate case. It put a lot of burden on the industry to modify their mailings to meet the change requirements. And so it is an issue that we continue to have because, quite frankly, with the decline in the number of pages in periodicals, we have seen their cost coverage drop below 100 percent. So we are working aggressively with the industry. We are rolling out new equipment called a flat sequencer, which will affect and make flat mail much more productive.

So, again, we are working on a plan to do two things: first of all, bring cost coverage of periodicals back up to 100 percent, and, No. 2, build a plan going forward that will assure that we stay at or above 100 percent long term.

Mr. MARCHANT. And, Mr. Chairman, if you will allow me just a little input from my district. I think that the Forever stamp was a great idea. I think it allowed people to take a little of their budget into their own hands and gives them some opportunity to control future rate jumps. But we are also experiencing in my area, an

area that were growing suburbs maybe 20 years ago are now gentrifying a little bit, and we are beginning to see an increased usage of the facilities. People are coming into the facility and are not very savvy to electronic machines, and there is a little resistance. The business people seem to be able to adapt very easily to the postal machines that are being put out in the lobby to cut down on the lines and everything. The lines, interestingly enough, seem to be created from a strong immigrant population that is very—that loves to use the mail, U.S. mail, and I am sure that is to mail outside the country.

So these are the kind of growing pains that we are experiencing in my suburban Dallas district. Postmaster, I appreciate your help in addressing some of those issues. And I would like to just give compliments to the adaptability, the kind of a—I wouldn't say new-found adaptability, but an increasing adaptability to just local needs that postal customers have, and I think it is beginning to pay off. Thank you.

Mr. POTTER. Thank you.

Mr. DAVIS. Thank you very much.

Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman.

I would like to just shift a little bit to some of the more basic issues that are in front of you. I know, Mr. Potter, you had indicated earlier about the financial shortfall that we have had here. I was wondering if any of you can tell me about the impacts of—I know going back even as recently as 2005, we had diesel fuel at \$2.50 a gallon, and now it is \$4.25. I am not familiar with the internal purchasing arrangements that you might have to buy fuel, to basically get a bid on a price at a certain level beforehand. I know, in fact, you don't have the ability to pass on a surcharge like some of your competitors do. How is that affecting your bottom line? Where are we on transportation costs, on gasoline and for diesel? How is that going?

Mr. POTTER. Well, let me just throw some sound bites at you. We buy 800 million gallons of gas a year. So, every penny in the price of a gallon of gas is \$8 million. Pick your benchmark. You know, several years ago we were paying \$1.50 a gallon for gas. We pay a little less because we don't pay taxes depending on where we buy, when we buy for our pool. But the fact of the matter is, the price for a gallon of gas has gone up about \$2. When it is a penny and it is \$8 million, it is reasonable. But once you start looking at \$8 million times 200 pennies, it is real money, and so it has impacted our finances.

That doesn't include the increased price for electricity because we have to heat buildings, increased price of all of—anything to do associated with a facility. We have contract prices for our highway contract routes, they are not included in that, as well as our air transportation. So it has had a sizable impact on us.

Now, I have to give our employees a lot of credit, because they have really risen to the challenge of trying to eliminate transportation where we don't have to have it and where we don't have to use it. And so we have been able to cut back on the number of trips that we have. We have been able to reduce our air transportation costs by something as simple as filling trays tighter. So, we are

looking at every way possible to lower our use, as well as just finding other ways to save money to offset that cost.

I will just tell you that one of the things that you did for us with the new law is you do enable us to do fuel surcharges for packages, and on an exception basis, if we went for an exigent rate case, we can do that for our market-dominant or our mail products, but we have never explored that. And our preference would be to try and tighten our belt as best we can, because we know our customers are hurting at the same time, but we will explore those avenues if we need to.

Mr. LYNCH. What I am concerned about is, I would like to somehow be able to break out that energy-related cost. And, yeah, jet fuel, right through the roof as well. Why have you not considered—we have this delta here in terms of what you are bringing in and what we are spending in employee health costs. If we are sort of masking this fuel surcharge that you are absorbing right now, it just magnifies the impact of some of the other aspects of it. And I know you have with the new PRC—you can go before them and make a special request. I seem to think the language that we put in there was meant for this type of situation, specifically where fuel goes through the roof and you are stuck. So——

Mr. POTTER. If I could, Congressman. Just to add that one of the things we are most concerned about is our customers, and every one of our products has elasticities tied to it. So the higher we raise the price, the less mail we have, and so therein lies a huge challenge. At a time when people are hurting and looking to figure out how to save every dollar they can, the last thing we want to do is drive them away from the mail, whether that is have them move to electronic bill presentment or have them consider testing other forms of advertising. We know we have strength there, and we want to make sure that we do our best to work with our customers. And seeking an exigent rate case, I would view it almost as a last resort because of what I just described.

Mr. LYNCH. And I am happy to hear you say that. I am happy to hear you say that. I just would like that information for us. If you are not going to—by all means, don't pass it on to the customer, and I think your reasons are well founded. However, for this committee I would like to have some type of breakout that shows me what increase in your costs, what the impact of fuel costs are having on the Postal Service in general.

The other question I had is, the other committee I serve on is Financial Services, and we hear a lot about the disconnect between CPI, which caps your market-dominant products, and the reality of the increase in cost to people of a basket of goods, whether or not CPI is really reflecting all of the increase in the cost of living. And have you any thoughts on that? Given the fact that it is a cap on 90 to 95 percent of your products, is this something that accurately reflects the costs out there, or is this something that needs to be adjusted?

Mr. POTTER. Well, it is a very interesting question, and I think you would really need an economist here to answer that question with fact rather than opinion. I will say this: 80 percent of the Postal Service's costs are labor, and our labor contracts have cost-of-living adjustments in them tied to the CPI. So there is some re-

lationship between the Postal Service, the bulk of Postal Service costs, which is labor, and the CPI index.

Now, I think you have panels that will follow me that would be very happy to weigh in on what you just asked and can take it from a human vantage point, because it does control what people take home on a daily and weekly basis, and I think they will give you a little bit more of an emotional response than I am able to.

Mr. LYNCH. OK. I will save that question. Thank you.

I yield back.

Mr. DAVIS. Thank you, Mr. Lynch.

Mr. Clay.

Mr. CLAY. Thank you, Mr. Chairman.

And along the same lines as Mr. Lynch, Mr. Blair, how much did the last rate increase generate in funding for the Postal Service?

Mr. BLAIR. I am told, and I get this from Mr. Potter's statement, it is approximately \$700 million for this fiscal year.

Mr. POTTER. The upcoming rate increase?

Mr. CLAY. The previous one. See, I hear from my constituents every time you get a rate increase. So let's cover all of them.

Mr. POTTER. Well, are popular with everyone.

Mr. BLAIR. I don't have that off the top of my head. That was last year, and I can tell you this year's figures.

Mr. POTTER. Let me try to answer that. We anticipated that we would get an additional 7.5 percent increase—approximately 7.5 percent increase in revenue. But with the volume decline, right now we are running more around 3.5 because of the—closer to 3 percent because of the fact that volume is down 3.1 percent this year.

Mr. CLAY. What does that translate into as far as dollar amount?

Mr. POTTER. On a—let's round it—an \$80 billion base, 7 percent, we anticipated a \$5 billion—like a \$75 billion base. So we anticipated about a \$5 billion increase, and what we are seeing out of it is about a \$2 billion increase.

Mr. CLAY. \$2 billion? And then how much of that goes into health care and into—

Mr. POTTER. Our health care bill on an annual basis is over—it is over \$7 billion when you look at it. It is about 10 percent of what we take in.

Mr. CLAY. So, May 12th will be another rate increase.

Mr. POTTER. Right. And it's 2.9 percent. Normally it would deliver around \$2.3, \$2.4 billion in additional revenues.

Mr. CLAY. What do you do with the profits?

Mr. POTTER. I pay people. Eighty percent of our costs are labor. When you look at paying almost 700,000 career employees and then with noncareer around 800,000 people, all who are getting base pay increases of 1 percent plus and on top of that are getting cost-of-living adjustments, which is about 66 percent of CPI, it goes fast. It is above 3 percent. As a matter of fact, if you looked at our costs, just to stay current, if we weren't in this economic slowdown, we would have to take and save \$1 billion in efficiency to close the gap between what we can generate in new revenues at the CPI level and what our costs are.

So our costs had been growing before the economic turndown of about \$1 billion above the rate of CPI, and it is that gap that we

have been closing through efficiency. I am really grateful to all our employees for embracing that notion, therein lies the challenge for the Postal Service.

Mr. CLAY. Now, every time you get a rate increase, my constituents are telling me they think the Postal Service is flush with cash.

Mr. POTTER. Well, you can tell them from me that is not the case. I think you can tell them that is not the case.

Mr. CLAY. And, now, when you get these increases, do you use judicious decisionmaking as far as being prudent with the cash?

Mr. POTTER. Without a doubt. The Postal Service in the last, I believe, 7 or 8 years it has more productivity improvement than it had in its first 30. So we have been managing and tightening our belts. And I have to tell you, I think what is very surprising to people is the fact that we have had a decline of over 100,000 career employees in the past several years. I say that not in any way, shape, or form as we are bragging on that. I am saying that, collectively, unions, management associations, postal management, mailers have recognized the need to become more efficient if mail is to stay viable, and we are working together to do that.

And so, as I said, when you look at the numbers, there is a gap every year, and if you don't improve your efficiency, you are going to lose money. And if you don't stay with it, that number is just going to grow every year. And we are very open about sharing that information. Let me assure you, we are very careful with every dollar that we get and how we spend every dollar that comes into the Postal Service.

Mr. CLAY. Have you seen a cost reduction in contracting out of employees?

Mr. POTTER. Does that save money versus using career employees? Yes. The same as—

Mr. CLAY. Does it save much?

Mr. POTTER. It depends on what type of employee it is and what activity it is. Last time I believe I testified that when it comes to delivery, using a contract employee saves you about half of what it would cost to use a career employee. We don't do that on—you know, the bulk of our delivery has and will continue to be career employees.

Mr. CLAY. How do they compare to quality and efficiency?

Mr. POTTER. The numbers say that it is the same.

Mr. CLAY. It is the same.

Mr. POTTER. That is what the numbers tell me.

Mr. CLAY. I thank you very much for your response.

I yield back, Mr. Chairman.

Mr. DAVIS. Thank you, Mr. Clay.

Mr. Potter, let me just ask you, the Postal Service operations rely on employees coming to work every day, like in almost any other industry. When employees' sick leave usage increases, that has a significant impact on operational costs. During the next several years, many FERS employees will be eligible to retire, and they currently do not have any incentive to save their sick leave because, unlike CSRS employees, they do not get any retirement benefit. Do you have any thoughts as to how that may impact operational costs during the next decade?

Mr. POTTER. Mr. Chairman, I don't have a specific number. I am sure we can do the analysis. I will tell you this, though: The use of sick leave is a burden from a cost standpoint, but, more importantly, it is a burden from a service standpoint because we rely on all of our employees to show up every day to get the mail out. If they are not in because they are sick, we have to cover routes. And I think it has as much of an impact on service as it does on cost.

But suffice it to say we would prefer that people did not use sick leave if they are not sick, and that we should consider some type of an incentive system or a change in the system that would encourage people to use sick leave only when they are sick and reward them for an accumulation of sick leave over time.

Mr. DAVIS. Have you observed any change in sick leave usage, say, in the last year?

Mr. POTTER. Nothing that dramatic, or nothing that you could attribute to anything. I mean, we had a situation a couple months ago where the flu was very strong, and we saw a bump. But the long-term trend is that it has been rising, and what you described, I believe, is a contributing factor.

Mr. DAVIS. What is the purpose of the repositioning rules that would allow the Postal Service to involuntarily transfer veterans-preference-eligible supervisors and other management employees without the right of appeal to locations that are far from their homes following a downsizing or consolidation of a postal facility? And does this undermine the spirit of, say, veterans preference?

Mr. POTTER. To the best of my knowledge—and obviously there is local practices everywhere, we comply with all of—in terms of downsizing, the RIF rules that OPM has put forward. And so I think we are consistent with the Federal Government in terms of applying veterans preference.

Mr. DAVIS. Thank you.

Mr. Williams, let me ask you a question. Based on your audit work concerning mail delivery problems in Chicago, what can the Postal Service do to prevent similar problems from occurring in other parts of the country?

Mr. WILLIAMS. Thanks, Mr. Chairman.

What we found in Chicago, and we were asked to go in very quickly as soon as the problem was identified, the problems surrounded improperly maintained equipment and poor mail-flow processes that did not comply with the processes of the Postal Service. There were vacancy problems that weren't carefully monitored, and then the responsibilities of a number of the managers were not being fulfilled.

We also found a culture there that was seriously problematic in that it didn't emphasize rapid and high-quality work. A number of changes occurred as a result of that. As Chicago was growing stronger, we began doing exactly what you just said, looking more broadly.

Today, senior postal officials have daily and weekly reports that come to them that is much richer in data with regard to the full network and the delivery systems. And there is also a new system report called the Area Mail Review Analysis that feeds and informs biweekly teleconference calls that detect problems and move toward resolution.

My office has worked with the vice president of operations also to develop an indicator which rank-orders the district's performance in those areas, and we learned a great deal from Chicago. And that allows the Postal Service, who uses a much more sensitive instrument for corrective action, and our office to move to those areas where we see trouble. We are not seeing anything on the level of Chicago, but we are certainly trying to move against problems as they appear at the horizon.

I think in the case of Chicago, we would also be remiss if we didn't mention Gloria Tyson. She did a terrific job of turning that around and was a very talented, hard-working person there.

Mr. DAVIS. Well, thank you very much. And what it is that you did and whatever it is that you and the Postmaster General and others were able to do with Chicago, we certainly appreciate it.

It sort of reminds me of a story about Abraham Lincoln and Grant. When Grant was supposedly drinking a lot of whiskey, people were complaining to the President about it and said, well, you know, this guy is really drinking a lot. But he was winning battles. And the President said, well, whatever it is that he is drinking, let me know.

So whatever it is that you did in Chicago, we want you to be able to do the same thing in other places throughout the country.

I know that Delegate Christensen from the Virgin Islands has expressed some concerns, and I would certainly appreciate it, Mr. Postmaster General, if you all would look into that situation for her.

I see that we have been joined by Representative Cummings. Let me ask if he has some questions.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

I know you have done this already, but I would be more than remiss if I did not recognize one of the giants of the Congress, Congressman Clay. I want to thank you for all you have done for us and being a true role model in so many, many ways. I thank you for being here.

Mr. Potter, let me ask you just a question or two about the semipostal stamps. It is my understanding that there is a certain limitation with regard to those stamps.

Mr. POTTER. Well, we would prefer to do one stamp at a time. I think originally it was planned that every 2 years there would be a turnover, and we would have a new cause that would be achieved, receive the benefits from a semipostal.

Mr. CUMMINGS. Right now, is that the breast cancer stamp?

Mr. POTTER. Yes, it is.

Mr. CUMMINGS. I have been thinking about introducing legislation to make it so that we can do more than one at one time. Let me be real clear on this, because I realize that people will come and say, well, Cummings, you know, breast cancer is very significant and this may open up the floodgates to others. I know that is probably the argument.

I have a tremendous sensitivity with regard to breast cancer, but I also have a sensitivity with regard to a number of other diseases. And when you consider, for example, Alzheimer's, just as an example, with the many people who are coming down with that and suf-

fering—and there are others—I am just wondering, is there a door open for anything other than, or in addition to, breast cancer?

Do you follow what I am saying?

Mr. POTTER. I know what you are saying.

Mr. CUMMINGS. Because I just think that it is just—and I don't know, we have been—I think we are kind of limited to that now. But it seems like—if you were worried about the floodgates, it seems like we would have at least some type of rotating situation where other causes might be brought up, so we might be able to raise funds for them. So I am just wondering where we stand on that.

Mr. POTTER. We have had experience with that, Congressman. At one point we had two, we had the breast cancer and the family violence. And then we had the hero stamp, which was funds generated for the victims of 9/11, the heroes.

What we found is, when you get to three, they really start to compete with one another and they are not effective. Two, I think we were doing all right.

Again, I think there is flexibility. But what you don't want to have is what you described, your terminology, "floodgates," because then, you know, you lose your ability to promote it; and our cost to keep them, you know, stocked goes up.

And the one thing we are very concerned about is the administrative costs of this, not because it affects us, but because we get—those funds get taken away from the charities. Anything above and beyond the price of a stamp that it costs us to administer the program is lost to the charity.

Certainly, I would support going beyond the one, but I would hesitate—I would encourage you to put a cap on it. Two or three would be something that I think we could work with. Again, from a promotion standpoint and administrative cost, we don't want it to become too burdensome, and we don't want it to lose its effect.

Mr. CUMMINGS. I don't either. I know sometimes you can spread things so thin that there is no true beneficiary because it's spread so thin.

Mr. POTTER. Exactly.

Mr. CUMMINGS. I was curious. If you don't have these numbers, if you would be kind enough to get them to me, exactly how much money has the breast cancer stamp raised. I would love to see that information.

Mr. POTTER. For the purpose of accuracy, we will give you that and the other two as well. We will give you as much information as we have.

Mr. CUMMINGS. That will be good.

The other thing, when you think about something like Alzheimer's—and I know the other two types of stamps you mentioned are very, very serious issues; I don't want to take away from that, but I know there may be some other issues on the level of, say, breast cancer, that people may look at them in the same kind of light—that may very well cause people to come out and be very supportive.

Mr. POTTER. Well, we also have a series of stamps that don't generate funds, but generate awareness. So we have done a diabetes stamp. We have an Alzheimer's stamp in the works. They don't cre-

ate the funds, though, to help support it, but they do create awareness. We have had numerous stamps over the years to do that as well. But we will provide the information to you so that you can use that when you are considering where you go with the law.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

Mr. DAVIS. Thank you very much, Mr. Cummings.

Mr. Marchant, do you have any other questions?

If not, gentlemen, thank you very much. We appreciate your being with us and we appreciate your testimony.

As we begin to set up for our second panel, I will go ahead and introduce them.

For panel 2, we have Mr. William Young, who is the 17th national president of the National Association of Letter Carriers, the 300,000-member union representing city letter carriers employed by the U.S. Postal Service.

We also have Mr. John Hegarty, who was sworn into office as National Postal Mail Handlers Union's national president, July 1, 2002. For the 10 years prior to becoming national president, Mr. Hegarty served as president of Local 301 in New England, the second largest local union affiliated with the National Postal Mail Handlers Union.

We also have Mr. Don Cantriel. He was elected vice president of the National Rural Letter Carriers Association at the 101st Annual Convention in Minneapolis, MN. Mr. Cantriel has served at all levels of the association, beginning with president of his local union.

And we have Mr. Myke Reid, who is the legislative and political director of the American Postal Workers Union, the largest postal union in the world, with over 300,000 members. Mr. Reid works as a lobbyist for the American Postal Workers Union, as well as a member of the union's Political Action Committee.

Gentleman, we thank you all very much for being here with us to participate.

You know what they say, Myke. The first shall be last and the last shall be first.

Gentleman, if you would stand and raise your right hands to be sworn in.

[Witnesses sworn.]

Mr. DAVIS. The record will show that the witnesses have answered in the affirmative.

Gentleman, we again thank you very much for being here. You know the process. If you would take 5 minutes to make an opening statement, the lights will indicate—green means that you have the entire 5. You get down to the yellow light, it means that you have 1 minute left. Of course, the red light means that it is time to stop.

And your full testimony, written testimony, is in the record.

We will begin with you, Mr. Young.

STATEMENTS OF WILLIAM YOUNG, PRESIDENT, NATIONAL ASSOCIATION OF LETTER CARRIERS; JOHN HEGARTY, NATIONAL PRESIDENT, NATIONAL POSTAL MAIL HANDLERS UNION; DON CANTRIEL, VICE PRESIDENT, NATIONAL RURAL LETTER CARRIERS ASSOCIATION; AND MYKE REID, LEGISLATIVE AND POLITICAL DIRECTOR, AMERICAN POSTAL WORKERS UNION, AFL-CIO

STATEMENT OF WILLIAM YOUNG

Mr. YOUNG. Thank you very much. Good morning, Chairman Davis and Ranking Member Marchant. I am proud to be here as a representative of nearly 300,000 active and retired members of the National Association of Letter Carriers.

I am especially proud this week as we prepare for the NALC's annual Stamp Out Hunger Food Drive this Saturday. All across the country, tens of thousands of letter carriers will collect donated food for the Nation's food banks to help feed the poor and hungry in more than 10,000 communities. I hope you will spread the word to your constituents to help out families by donating what they can.

A year ago, we all appeared before you at a similar hearing. A lot has changed since then, both good and bad. Let me start with the positive.

Last year, I came to sound the alarm about the Postal Service's growing use of contractors to deliver the mail. I said then, and I believe today, that the use of low-wage, no-benefit contractors to perform the final delivery of mail is both wrong and a fundamentally flawed business strategy.

Fortunately, we have made a lot of progress on this issue of contracting out. We averted the need to submit the issue to a neutral arbitrator by reaching a new 5-year collective bargaining agreement last July. We established firm limits on outsourcing and set up a special committee to hammer out solutions with regard to subcontracting.

While that committee does its work, a moratorium on any new contracting out has been extended to at least July 31st. We have a long ways to go, but we are moving forward and I am hoping that we can reach a long-term understanding.

I want to thank Postmaster General Potter and Vice President Doug Tulino for working with us in such a constructive manner. I also want to thank Alan Kessler, the new chairman of the Board of Governors, for seeking to maintain positive labor relations. Indeed, he has even agreed to address our union's convention in Boston this summer.

So there has been progress in the area of labor relations. That is the good news.

The bad news is the economy. The recession has now taken hold in the economy, and it hit the postal business several months ago. Declining mail volumes due to the meltdown in the mail-intensive housing and finance sectors, coupled with major cutbacks in advertising, has placed an extreme pressure on the U.S. Postal Service. These economic challenges mean it is more important than ever to maintain constructive labor relations, and the NALC is committed to finding win-win solutions.

We are working with management on implementing the flat sequencing system, automation that will cost us jobs in the short run, but will help the Postal Service thrive in the long run. We are exploring ways to more efficiently evaluate and adjust routes both to cut costs and to improve the atmosphere in the Nation's delivery units. And we are working together to generate new revenues by deploying letter carriers as sales agents for competitive postal products, an effort that I am proud to say has resulted in nearly half a billion dollars in new annual revenue so far.

But we believe there are ways Congress can contribute to preserving the Postal Service. Innovative uses of our universal service network should be promoted. Vote by mail is a perfect example. In States that employ postal elections and allow no-excuse absentee ballots, voter turnout has skyrocketed. This is why the NALC urges Congress to pass H.R. 1667, the Vote By Mail Act, and H.R. 281, the Universal Right to Vote By Mail Act sponsored by Congresswoman Susan Davis. These bills would provide grants to the States to develop vote by mail procedures and guarantee every voter the right to cast a ballot in Federal elections.

On the flip side, Congress can also help by addressing the threat of so-called Do Not Mail initiatives at the State level. These misguided proposals have popped up all over. Fortunately, none has been enacted, but they pose a real danger by wrongfully equating direct mail with unsolicited phone calls that prompted the FTC's Do Not Call Registry.

But direct mail advertising is an unobtrusive medium that encourages economic growth. It helps both large and small businesses find new customers and cultivate existing ones. It is also a vital avenue for political and social advocacy. And direct mail is crucial to underwriting the cost of the universal postal service, just as advertising underwrites the cost of radio, television and newspaper communications.

Congress could bolster the Postal Service's financial stability by taking up a number of matters that did not receive priority attention during our long debate over postal reform. I would like to mention just three of them.

First, the Postal Accountability Enforcement Act: The Postal Service is required to prefund the cost of health benefits for postal retirees after receiving a down payment on this cost from the transferred surplus to the postal portion of the CSRS fund. The amount of the surplus was calculated by the Office of Personnel Management's Board of Actuaries.

The annual cost of this prefunding, some \$5 billion per year, is excessive, because OPM significantly underestimated the true size of the postal pension surplus. The smaller-than-expected transfer means higher-than-expected annual payments from the Postal Service.

Although a law allows for review of the OPM calculation by the Postal Regulatory Commission, it provides no remedy. We urge Congress to take decisive action to correct this error in order to save the Postal Service and the stamp-buying public hundreds of millions, if not billions, of dollars per year.

Second, Congress correctly transferred from the Postal Service to the U.S. Treasury the cost of CSRS benefits associated with mili-

tary service by postal employees before they were hired by the Post Office. Military costs are rightfully the responsibility of all taxpayers, not ratepayers. This same logic applies to the cost of military pensions earned by employees under the FERS program. We urge you to consider that.

Third, we ask that Congress investigate and reverse the decision by the Department of Health and Human Resources to deny the Postal Service the employer subsidies provided for in the Medicare Modernization Act. The Postal Service helps underwrite the cost of prescription drug benefits for tens of thousands of Medicare-eligible retirees, but when it applied for the employer subsidies, its application was rejected. HHS did this largely because the Office of Personnel Management decided not to seek the subsidies for the FEMA program as a whole. OPM concluded that using taxpayer funds to support another tax-funded program made little sense. That may be, but in the Postal Service it is different because we are not funded by the taxpayers. We believe the Postal Service is entitled to Part B subsidies and hope that Congress will act to overturn this decision.

Before I conclude, I would like to raise one last issue that came out of postal reform. As you know, postal reform included a provision that imposes a 3-day waiting period of injured postal employees before they can begin receiving benefits under Worker's Comp. I was adamantly opposed to that provision because it is discriminatory. No other group of Federal workers is required to wait 3 days. No one has given me a good reason why injured postal employees should be singled out in this way. I urge the Congress to reverse this unfair provision as soon as possible.

Thank you very much.

Mr. DAVIS. Thank you very much.

[The prepared statement of Mr. Young follows:]



National Association of Letter Carriers

William H. Young
President

100 Indiana Ave., NW
Washington, DC
20001-2144
202.393.4695
www.nalc.org

Fredric V. Rolando
Executive Vice President

Gary H. Mullins
Vice President

Jane E. Broendel
Secretary-Treasurer

George C. Mignosi
Asst. Secretary-Treasurer

Dale P. Hart
Director, City Delivery

Brian E. Helman
Director, Safety & Health

Myra Warren
Director, Life Insurance

Timothy C. O'Malley
Director, Health Insurance

Ernest S. Kirkland
Director, Retired Members

Board of Trustees:
Larry Brown Jr.
Chairman

Randall L. Keller
Michael J. Gill

Affiliated with the AFL-CIO &
Union Network International



Testimony of

William H. Young

President

National Association of Letter Carriers, AFL-CIO

Washington, DC

Before

Subcommittee on Federal Workforce, Postal Service, and the District of
Columbia

U.S House of Representatives

May 8th, 2008

Good Morning Chairman Davis and Ranking Member Marchant and thank you for having me. I am proud to be here as the representative of nearly 300,000 active and retired members of the National Association of Letter Carriers.

I am especially proud this week as we prepare for the NALC's annual "Stamp Out Hunger" food drive this Saturday. All across the country, tens of thousands of letter carriers will collect donated food for the nation's food banks to help feed the poor and hungry in more than 10,000 communities. I hope you will spread the word to your constituents to help out families in need by donating what they can.

A year ago we all appeared before you at a similar hearing. A lot has changed since then, both good and bad. Let me start with the positive. Last year, I came to sound the alarm about the Postal Service's growing use of contractors to deliver the mail. I said then, and I still believe today, that the use of low-wage, no-benefit contractors to perform the final delivery of mail is wrong for the and a fundamentally flawed business strategy.

Fortunately, we have made a lot of progress on the issue of contracting out. We averted the need to submit our dispute to a neutral arbitrator by reaching a new five-year collective bargaining agreement last July. We established firm limits on outsourcing and set up a special committee to hammer out solutions with regard to sub-contracting. While the committee works, there is a moratorium on any new contracting out, a hiatus that has been extended through at least July Thirty-First. We have a long way to go, but we are moving forward and I am hopeful that we can reach a long-term understanding.

I want to thank Postmaster General Jack Potter and Vice President Doug Tulino for working with us in such a constructive manner. I also want to thank Alan Kessler, the new Chairman of the Postal Board of Governors, for seeking to maintain positive labor relations. Indeed, he has even agreed to address our union's convention in Boston this summer.

So there has been progress in the area of labor relations. That's the good news. The bad news is the economy. The recession now taking hold in the economy hit the postal business several months ago. Declining mail volume due to the meltdown in the mail-intensive housing and finance sectors, coupled with major cutbacks in advertising, is placing extreme financial pressure on the Postal Service.

These economic challenges mean it is more important than ever to maintain constructive labor relations—and the NALC is committed to finding win-win solutions. We are working with management on implementing the Flat Sequencing System, automation that may cost us jobs in the short-run but will help the Postal Service thrive in the long-run. We are exploring ways to more efficiently evaluate and adjust routes, both to cut costs and to improve the atmosphere in the nation's delivery units. And we are working to generate new revenues by deploying letter carriers as sales agents for competitive postal products—an effort I am proud to say has resulted in nearly a half a billion dollars in new annual revenue so far.

We believe that there are ways Congress also can contribute to preserving the Postal Service. Innovative uses of our universal service network should be promoted. Vote by Mail is a perfect example. In states that employ postal elections or allow no-excuse absentee ballots, voter turnout has sky-rocketed. That is why NALC urges Congress to pass H.R. 1667, the Vote by Mail Act, and H.R. 281, the Universal Right to Vote by Mail Act sponsored by Congresswoman Susan Davis. These bills would provide grants to the states to develop vote-by-mail procedures and guarantee every voter the right to cast a mail ballot in federal elections.

On the flip side, Congress can also help by addressing the threat of so-called Do-Not-Mail initiatives at the state level. These misguided proposals have popped up all over. Fortunately, none has been enacted, but they pose a real danger by wrongly equating Direct Mail with the unsolicited phone calls that prompted the FTC's do-not-call registry. But direct mail advertising is an unobtrusive medium that encourages economic growth. It helps both large and small businesses find new customers and cultivate existing ones. It is also a vital avenue for political and social advocacy. And direct mail is crucial for underwriting the cost of universal postal service—just as advertising underwrites the cost of radio, television and newspaper communications.

Congress could also bolster the Postal Service's financial stability by taking up a number of matters that did not receive priority attention during the long debate over postal reform legislation. I'd like to mention three of them.

First, under the Postal Accountability and Enforcement Act, the Postal Service is required to pre-fund the cost of health benefits for postal retirees—after receiving a down-payment on this cost from the transferred surplus in the postal portion of the Civil Service Retirement Fund. The amount of this surplus was calculated by the Office of Personnel Management’s Board of Actuaries. The annual cost of this pre-funding, some Five Billion Dollars per year, is excessive because OPM significantly underestimated the true size of the postal pension surplus. The smaller-than-expected transfer means higher-than-expected annual payments for the Postal Service. Although the law allows for a review of the OPM calculation by the Postal Regulatory Commission, it provides for no remedy. We urge Congress to take decisive action to correct this error in order to save the Postal Service—and the stamp-buying public—hundreds of millions, if not billions of dollars per year.

Second, in the P-A-E-A, the Congress correctly transferred from the Postal Service to the United States Treasury the cost of CSRS benefits associated with military service by postal employees before they were hired by the Postal Service. Military costs are rightfully the responsibility of all taxpayers, not rate payers. The same logic applies to the cost of military pension benefits earned by employees under the Federal Employees’ Retirement System. We urge this sub-committee to develop legislation to return FERS military pension liabilities to the Treasury.

Third, we urge Congress to investigate and reverse the decision by the Department of Health and Human Services to deny the Postal Service the employer subsidies provided

by the Medicare Modernization Act. The Postal Service helps underwrite the cost of prescription drug benefits for tens of thousands of Medicare-eligible retirees, but when it applied for the employer subsidies, its application was rejected. HHS did so largely because the Office of Personnel Management decided not to seek the subsidies for the FEHBP as a whole. OPM concluded that using taxpayer funds to support another taxpayer-funded program made little sense. That may be, but the Postal Service is different—it is not funded by taxpayers. We believe the Postal Service is entitled to the Part D subsidies and hope Congress will act to overturn this HHS decision.

The Postal Service will face some very challenging times in the months and years ahead. NALC is committed to doing its part to help the Postal Service succeed. We hope Congress will do its part, too—as it has always done.

Before I conclude, I would like to raise one last issue that came out of postal reform. As you know, the P-A-E-A included a provision that imposes a three-day waiting period on injured postal employees before they can begin receiving benefits under the Worker's Compensation program, OWCP. I was adamantly opposed to that provision because it is discriminatory. No other group of federal workers is required to wait three days. Nobody has ever given me a good explanation of why injured postal workers should be singled out in this way. I urge the Congress to reverse this unfair provision as soon as possible.

That concludes my prepared statement. Thank you again for inviting me to participate in today's hearings. I will be happy to answer any of your questions.

Mr. DAVIS. We will go to Mr. Hegarty.

STATEMENT OF JOHN F. HEGARTY

Mr. HEGARTY. Good afternoon. Thank you Chairman Davis and the other members of the subcommittee for inviting me to testify.

My name is John Hegarty. I am national president of the National Postal Mail Handlers Union, which serves as the exclusive bargaining representative for more than 57,000 mail handlers employed by the U.S. Postal Service. In the interest of time and to accommodate your panel's practice of creating a dialog through questions, I will be brief. Please enter my entire testimony into the record.

It has been more than a year since I testified at your 2007 oversight hearing. In that year, the country has fallen deeper and deeper into an economic downturn, perhaps even a recession, which, when combined with the increasing use of electronic and other means of processing and delivering the mail, has created a potential economic crisis for the Postal Service.

In 2007, I stated that it was inappropriate, unwise, unsafe and wholly unjustified for the Postal Service to outsource its core functions, including the processing of mail normally handled at air mail centers or the processing of military mail headed to our troops in Iraq and Afghanistan. That was my position then, it is my position now, and it will be my position tomorrow.

Yet the Postal Service continues to pursue a fool's gold solution. I call it fool's gold, because the Postal Service continues to make plans to replace long-term career employees, who are dedicated to the mission of the Postal Service, with low-paid, no-benefit, non-career and often transient workers. Not only are the financial savings an illusion, but the American people should not have their postal system subsidize the profits of privateers, whether in the processing or the delivery of mail.

I want to highlight one point that has not received much attention, that the privatizing of mail has had an unfortunate corollary effect of reducing the number of opportunities for veterans returning from combat and noncombat situations. The mail handler craft welcomes veterans, as does the entire Postal Service.

Some of our brothers and sisters are serving overseas in the war zones today. We are proud of that fact and have managed to partner with the Postal Service in preserving their job opportunities and hiring preferences. Unfortunately, private contractors are not held to the same requirements as the Postal Service when it comes to hiring vets; and even if a private contractor were to hire a veteran and asked that veteran to perform some of the same tasks as our members, that veteran would not have the same appeal rights and the same job security as a career mail handler hired by the Postal Service. The private gain of contractors is at the expense of our veterans and, ultimately, at the expense of the American people.

We are fortunate to have H.R. 4236, the Mail Network Protection Act, which has been introduced by Representative Stephen Lynch. This bill attempts to give career postal employers a fair shot at work slotted for privateers.

Mr. Chairman, you have been a postal employee. You know our members. We can compete with anyone, but we must have a level playing field with a chance to bargain about any subcontracting before it occurs.

We live in a century that will see vast changes in postal processing. In 1970, who could envision today's machinery, some of which is comparable in size to a football field. It does the work of many employees. We monitor the integration of this machinery to ensure that it performs work efficiently and securely without endangering the safety of its operators.

My union works closely with the Postmaster General and his staff to make sure those employees are properly trained, to ensure that they perform their labor in a safe work environment, and to minimize the personal inconvenience and dislocation that employees might otherwise suffering.

The installation and integration of machinery has been implemented relatively smoothly for several decades now because management and union representatives are required to bargain about these issues, and therefore, we are able to work jointly to resolve any disputes. The same should be true for proposals to outsource or subcontract the work of career employees. But if the Postal Service continues to outsource work on a unilateral basis without bargaining with its unions, it will continue to drive a wedge between postal management and the hundreds of thousands of loyal and dedicated postal employees.

Another feature of the 21st century will be the realignment of the postal network to meet modern business and population trends. I must be honest. Our members nervously await the upcoming report on network realignment. We have had differences with the Postal Service on aspects of this ongoing realignment.

Often those differences arise from the secrecy within the Postal Service. If the Postal Service simply would share its draft plans with us ahead of time, we could work to minimize the dislocation and inconvenience to our members, as is required by our collective bargaining agreement; and also to minimize the service disruptions that may occur to your constituents.

In the end, if the service deteriorates unnecessarily, then no network realignment, no matter how attractive on paper, is justified. And who knows better than the union members who collect, process and deliver the mail? We must take advantage of the work force's knowledge, skills and abilities, and try to preserve the qualified and productive work force currently employed.

I would like to take some time to commend the Board of Governors and the Postmaster General for their vision of a new post-postal reform world. In changing to a more traditional business model, they have rolled out new products to enhance our competitiveness. While the Mail Handlers Union enthusiastically supports new products and new pricing models, and we welcome volume discounts when appropriate, such discounts must be priced appropriately and not be set to lose overall revenue. Where volume discounts can be accomplished to the benefit of the Postal Service and the customer, we have a win-win situation that all can and should support.

That concludes my statement. Again, thank you for this opportunity to testify. If you have any questions, I would be glad to answer them.

Mr. DAVIS. Thank you very much, Mr. Hegarty.

[The prepared statement of Mr. Hegarty follows:]



National Postal Mail Handlers Union

John F. Hegarty
National President

Mark A. Gardner
Secretary-Treasurer

Jefferson C. Peppers, III
*Vice President
Central Region*

Samuel C. D'Ambrosio
*Vice President
Eastern Region*

Paul Hogrogian
*Vice President
Northeastern Region*

Bruce Z. Miller
*Vice President
Southern Region*

Rudy Santos
*Vice President
Western Region*

TESTIMONY OF

**JOHN F. HEGARTY
NATIONAL PRESIDENT
NATIONAL POSTAL MAIL HANDLERS UNION**

BEFORE THE

**SUBCOMMITTEE ON
FEDERAL WORKFORCE, POSTAL SERVICE, AND
THE DISTRICT OF COLUMBIA**

OF THE

**HOUSE COMMITTEE ON
OVERSIGHT AND GOVERNMENT REFORM**

"The Economics of Universal Mail Post PAEA"

May 8, 2008

National Headquarters: 1101 Connecticut Avenue, NW, Suite 500, Washington, D.C. 20036
(202) 833-9095 FAX (202) 833-0008 <http://www.npmhu.org>



Good morning, and thank you Chairman Davis and members of the Subcommittee for inviting me to testify. My name is John Hegarty, and I am National President of the National Postal Mail Handlers Union, which serves as the exclusive bargaining representative for more than 57,000 mail handlers employed by the U.S. Postal Service. In the interest of time and to accommodate your panel's practice of creating a dialogue through questions, I will be brief. Please enter my entire testimony in the record.

It has been more than a year since I testified at your 2007 oversight hearing. In that year, the country has fallen deeper and deeper into an economic downturn – perhaps even a recession – which, when combined with the increasing use of electronic and other means of processing and delivering the mail, has created a potential economic crisis for the Postal Service. In 2007 I stated that it was inappropriate – unwise, unsafe, and wholly unjustified – for the Postal Service to outsource its core functions, including the processing of mail normally handled at air mail centers or the processing of military mail headed to our troops in Iraq and Afghanistan.

That was my position then; it is my position now; and it will be my position tomorrow. Yet the Postal Service continues to pursue a fool's gold solution. I call it "fool's gold" because the Postal Service continues

to make plans to replace long-term career employees who are dedicated to the mission of the Postal Service with low-paid, no-benefit, non-career, and often transient workers. Not only are the financial “savings” an illusion, but the American people should not have their postal system subsidize the profits of privateers, whether in the processing or delivery of mail.

I will not repeat all of the reasons we oppose the outsourcing of postal work, as everyone on this Subcommittee is already intimately familiar with those arguments. But I did want to highlight one point that has not received much attention: that the privatizing of mail has had an unfortunate corollary effect of reducing the number of opportunities for veterans returning from combat and non-combat situations. The mail handler craft welcomes veterans, as does the entire Postal Service. We have an extremely high percentage of veterans in our ranks, and some of our brothers and sisters are serving overseas in the war zones today. We are proud of that fact, and have managed to partner with the Postal Service in preserving their jobs.

Unfortunately, private contractors are not held to the same requirements as the Postal Service when it comes to hiring vets; and, even if a private contractor were to hire a veteran, and ask that veteran to perform some of the same tasks as our members, that veteran would

not have the same appeal rights and the same job security as a mail handler hired as a career employee by the Postal Service. The private gain of contractors is at the expense of our veterans, and ultimately at the expense of the American people.

Today, we are fortunate to have H.R. 4236, the Mail Network Protection Act, which has been introduced by Representative Steve Lynch. It has bipartisan support from at least 86 of your colleagues. The bill attempts to give career postal employees a fair shot at work slotted for privateers. Each significant proposal to subcontract postal work would be carefully analyzed. Mr. Chairman, you have been a postal employee. You know our members. We can compete with anyone – but we must have a level playing field, with a chance to bargain about any subcontracting before it occurs.

We live in a century that will see vast changes in postal processing. In 1970, who could envision today's machinery, some of which is comparable in size to a football field? It does the work of many employees. We monitor the integration of this machinery to make sure it performs work efficiently and securely, without endangering the safety of our operators. My union works closely with the Postmaster General and his staff to make sure those employees are properly trained; to ensure that they perform their labor in a safe work environment; and to

minimize the personal inconvenience and dislocation that employees might otherwise suffer. The installation and integration of machinery has been implemented relatively smoothly, for several decades now, because management and union representatives are required to bargain about these issues, and therefore we are able to work jointly to resolve any disputes. The same should be true for proposals to outsource or subcontract the work of career employees; but if the Postal Service continues to outsource work on a unilateral basis, without bargaining with its unions, it will continue to drive a wedge between postal management and the hundreds of thousands of loyal and dedicated postal employees.

Another feature of the twenty-first century will be realignment of the postal network to meet modern business and population trends. I must be honest: our members nervously await the upcoming report on network realignment. In the past, we have had some differences with the Postal Service on aspects of this on-going realignment. Often those differences arise from the secrecy within the Postal Service. If the Postal Service simply would share its draft plans with us ahead of time, we could work to minimize the dislocation and inconvenience to our members, as is required by our collective bargaining agreement, and also to minimize the service disruptions that may occur to your constituents. In the end, if service deteriorates unnecessarily, then no network

realignment, no matter how attractive on paper, is justified. And who knows better than the union members who collect, process, and deliver the mail? We must take advantage of the workforce's knowledge, skills, and abilities, and try to preserve the qualified and productive workforce currently employed.

I would like to take some time to commend the Board of Governors and the Postmaster General for their vision of a new, post-postal reform world. In changing to a more-traditional business model, they have rolled out new products to enhance our competitiveness. They are pursuing intelligent mail, new products, and innovative pricing. While the Mail Handlers Union generally supports new products and new pricing models and volume discounts when appropriate, such discounts must be priced appropriately and not be set to lose overall revenue, or be below the costs avoided. Where volume discounts can be accomplished to the benefit of the Postal Service and the customer, we have a "win-win" situation that all can and should support.

There are other modernization efforts that we encourage. They include providing assistance to states and localities that wish to offer "vote by mail." This alternative way of expanding democracy is long overdue. The bottom line is that it works and is user-friendly.

The Service also continues to get “green” awards, for its efforts to preserve our environment. In fact, last week the Postal Service received a Presidential award for its conservation efforts. This was not the first such award, and it will not be the last. Plus, the Postal Service continues to help mailers go green through the use of intelligent mail and other innovative ideas to protect the environment.

This concludes my statement. Again, thank you for this opportunity to testify. If you have any questions, I will be glad to answer them.

Mr. DAVIS. We will go to Mr. Cantriel.

STATEMENT OF DON CANTRIEL

Mr. CANTRIEL. Chairman Davis, members of the Federal Workforce, Postal Service, and the District of Columbia Subcommittee, as vice president of the National Rural Letter Carriers Association representing 123,000 bargaining unit members, I would like to extend my thanks for scheduling a hearing on the oversight of the Postal Service.

While we were given a wide range of freedom on what to focus our testimony on, I would like to talk briefly about the recent economic trends our union experienced firsthand.

The Postal Service Accountability and Enhancement Act gives the Postal Service more flexibility to act like a business than had previously been allowed. Mr. Chairman, as you are well aware, the Postal Service can now bank a percentage of their profits, use a modern system of ratemaking to adjust rates, and it has the ability to create new programs to increase revenue.

For example, in our recent national agreement with the Postal Service, a new revenue-generating program called Rural Reach was created to attract new customers and customers who are using our competitors. In addition, rural carriers can also target customers who would benefit from using additional Postal Service products and services. What the Rural Reach program does is to allow rural carriers to serve our customers better. By merely initiating conversation with customers about the products and services rural carriers offer, we can grow more revenue in the small-to-mid-sized customer base.

Mr. Chairman, despite all the flexibility the Postal Accountability and Enhancement Act allows and the new programs we offer to generate revenue, the Postal Service is still not immune from the recent economic slump. Experts are still debating if what we are experiencing right now is an economic recession or not, the first since 2001, but there is little doubt we are in an economic downturn. Even before the Postal Accountability and Enhancement Act was signed into law on December 20, 2006, first-class mail volume was declining. More recently, total mail volume has also been declining. This economic downturn has caused normally heavy users of the mail—the financial industry, the mortgage industry, etc.—to limit or stop mailings altogether.

No one has felt this decline in total mail volume more than the NRLCA membership, who, in the last mail count, lost anywhere from 2 to 12 hours of their route evaluations. To put that into perspective, each hour of evaluation is worth approximately \$1,500.

The NLRCA membership has taken a second blow to their pocketbooks with the rising costs of gasoline. Currently, rural carriers serve on approximately 77,000 rural routes, traveling 3.4 million miles a day, averaging 45 miles per route. On 67 percent, or roughly 51,000, of those routes, rural carriers provide and deliver mail with their own personal vehicle.

Even though our members receive a vehicle maintenance reimbursement for providing their own vehicles, with the average price of a barrel of oil setting new records almost daily, which, in turn, increases the price of gasoline, and with gasoline averaging around

\$3.60 per gallon, our vehicle reimbursement has not kept pace with the rising cost of delivering the mail.

Along with the rising cost of gas, the cost of providing the route vehicle and the declining mail volume, our craft faces another challenge, the introduction of automated flat mail which has the potential of reducing route evaluations even further. We continue to work with the Postal Service to find ways to lessen the impact on the lives of our members.

Mail volume is cyclical. First-class mail volume has declined and standard mail volume has also declined. I am hopeful that total mail volume will bounce back once our economy begins to recover.

I was somewhat concerned when I saw the title of this hearing and I saw you wanted me to talk about the economics of the Postal Service, post the Postal Accountability and Enhancement Act: What Is Next.

I believe it is too early to fairly evaluate the effects of this new law. As I have said before, the Postal Service and the mailers are economically sensitive industries, and right now both are going through some very challenging periods. We need to give this new law a chance to work. Let's look at the effects of the Postal Accountability Enhancement Act after there has been an economic recovery and economic expansion. The law itself provides for an evaluation of the act in 10 years. Most likely that will allow for a full economic cycle and a better reflection of how the act is performed.

According to the Postal Regulatory Commission's Quarter 2 reports for fiscal year 2008, revenue is up despite first-class mail volume being down. The Postal Service constantly claims that to continue functioning under the Postal Accountability and Enhancement Act with a declining mail volume, cost-reduction procedures must be implemented, which to the rural craft usually means contracting out rural jobs.

Contracting out is still a very critical issue for our union. We continue to support Representative Sires' House Resolution 282 and urge Congress to become involved with this issue. I firmly believe that contracting out is not solely a collective bargaining issue. Although we have some protection in our national contract with the Postal Service that somewhat limits the Postal Service's ability to contract out, the current provisions do not fully address contract delivery service.

CDS is definitely a change of policy for the Postal Service. Because CDS is a policy issue, I urge Members to become involved and support legislation to address this issue.

We have been invited and have agreed to participate in a joint committee with the National Association of Letter Carriers and the Postal Service to discuss the issue of contracting out. I hope through this joint committee our two letter carrier unions and the Postal Service can find some common ground to solve this controversial issue. However, if the joint committee fails to produce any significant or meaningful agreement and if the GAO report due out in late July is favorable to our position, I pray Congress will finally become proactive on this issue and advance legislation to protect the sanctity of the mail.

Mr. Chairman and members of the subcommittee, I thank you for allowing me to testify before you today. I would be happy to answer any additional questions you may have.

Mr. DAVIS. Thank you very much, Mr. Cantriel.

[The prepared statement of Mr. Cantriel follows:]



NATIONAL RURAL LETTER CARRIERS' ASSOCIATION

1630 Duke Street, 4th Floor

Alexandria, VA 22314-3465

Phone: (703) 684-5545

Executive Committee

Donnie Pitts, *President*
Don Cantriel, *Vice President*
Clifford D. Dailing, *Secretary-Treasurer*
Randy Anderson, *Director of Labor Relations*
Ronnie Stutts, *Director of Steward Operations*

Bill Gordon, *Chairman*
P. O. Box 1409
Azle, TX 76098-1409
(817) 444-0752

Joey Johnson
P.O. Box 355
Pottstown, PA 19464-0355
(610) 718-1144

Jeanette P. Dwyer
P. O. Box 477
Lake Waccamaw, NC 28450-2319
(910) 646-3052

Steven Traylor
P.O. Box 520
Hillsboro, IL 62049-0520
(217) 532-2166

Testimony of
Don Cantriel, Vice President
National Rural Letter Carriers' Association

before the

Oversight and Government Reform Subcommittee on Federal Workforce, Postal
Service, and the District of Columbia

May 8, 2008

Chairman Davis, and members of the Federal Workforce, Postal Service, and the District of Columbia Subcommittee, as Vice President of the National Rural Letter Carriers' Association (NRLCA) representing 123,000 bargaining unit members, I would like to extend a thank you for scheduling a hearing on the oversight of the Postal Service. While we were given a wide range of freedom on what to focus our testimony on, I would like to talk briefly on the recent economic trends our union experienced first hand.

The Postal Accountability and Enhancement Act (PAEA) gives the Postal Service more flexibility to act like a business than previously allowed. Mr. Chairman, as you are well aware, the Postal Service can now bank a percentage of their profits, uses a modern system of rate making to adjust rates, and has the ability to create other programs to increase revenue. For example, in our recent National Agreement with the Postal Service, a new revenue-generation program called Rural Reach was created to draw in new customers currently using our competitors or customers who can benefit from using additional USPS services and products. Rural Reach allows rural carriers to better serve our customers by initiating conversations with them about the products and services we offer in an attempt to grow more revenue in the small to midsize customer base. The City Letter Carriers offer a similar program called Customer Connect.

Mr. Chairman, despite all the flexibility PAEA allows and the new programs we offer to generate revenue, the Postal Service is still not immune to the recent economic slump. Experts are still debating if what we are experiencing right now is an economic recession or not, the first since 2001, but there is no doubt we are in an economic downturn. Even before PAEA was signed into law on December 20, 2006, first-class mail volume has been declining. More recently, total mail volume has been declining also. This economic downturn has caused normally heavy users of the mail, the financial industry and mortgage industry, to stop mailing. No one has felt this decline in total mail volume more than the NRLCA membership, who in the last mail count lost anywhere from 2-12 hours on their route evaluations. Each hour of an evaluation is worth \$1500.

The NRLCA membership has taken a second hit to their wallets with the rising cost of gasoline. Currently, rural carriers serve roughly on 77,000 routes, traveling 3.4 million miles a day, averaging 45 miles per route. Sixty-seven percent, or roughly 51,000, of those routes rural carriers provide and deliver mail with their own personal vehicle. Our members do receive a vehicle reimbursement for providing their own vehicles. However, with the average price of a barrel of oil setting new high records every time the price increases, and gas averaging \$3.60 per gallon, our vehicle reimbursement has not kept pace with the rising costs of delivering the mail. Unfortunately, I will not know how much this extra cost will hit our members in their wallets until the exact cost of the new route evaluations have been determined.

Along with rising gasoline costs, the cost of providing a route vehicle, and the declining mail volume, our craft faces another challenge, the introduction of automated flat mail which has the potential of reducing route evaluations even further. We continue to work with the postal service to find ways to lessen the impact on the lives of our members.

Mail volume is cyclical. First-class mail volume has declined and standard mail has also declined. I am hopeful total mail volume will bounce back up once our economy begins to recover. I was somewhat concerned when I saw the title of this hearing and I saw you wanted me to talk about the economics of the Postal Service and what's next post-PAEA. I believe it is too early to fairly evaluate the affects of this new law. As I have said before, the Postal Service and the mail are economically sensitive industries, and right now both are going through a very challenging period. We still need to give this new law a chance to work. Let's look at the affects of PAEA after there has been an economic recovery and expansion. The law itself provides for an evaluation in 10 years, most likely that will allow for a full economic cycle and a better reflection of how the act has performed.

According to the Postal Regulatory Commission's (PRC) Quarter 2 reports for fiscal year 2008, revenue is up despite first class mail volume being down. The Postal Service constantly shouts to continue functioning under PAEA with a decline in mail volume, cost reduction procedures must be implemented; which to us usually means contracting out rural carrier jobs.

Contracting out is still an issue with our union. We continue to support Rep. Sires' House Resolution, H. Res 282, and urge Congress to become involved with this issue. I firmly believe contracting out is not solely a collective bargaining issue. We do have some protection in our National Contract with the Postal Service that somewhat limits the Postal Service's ability to contract out; however the current provisions do not fully address Contract Delivery Service. Contract Delivery Service, or CDS, is definitely a change of policy for the Postal Service. Because CDS is a policy issue, I urge members to become involved and support legislation to address this issue.

The Government Accountability Office (GAO) plans to release their report on Contracting Out in late July. We consulted with the GAO last September, educated the GAO about the grave concerns we have with the way this issue has been handled.

We also are participating in a joint committee, along with the NALC and USPS, to discuss the issue of contracting out. I hope through this joint committee the two Letter Carrier unions and the Postal Service can find some common ground on this controversial issue.

If the joint committee fails to produce any significant and meaningful agreement, and the GAO report is favorable to our position, I pray Congress will finally become proactive in this issue and advance legislation to protect the sanctity of the mail.

Finally, the PRC is tasked with studying the Universal Service Obligation (USO) and report if it makes economical sense to continue delivering everywhere, everyday, to every address 6 days a week. This study causes us great concern. Our concern is the group contracted by the PRC to lead the USO study has some known bias opinions on this subject, possibly recommending and finding the Universal Service Obligation outdated. Their conclusions, we fear, may call for the greater use of contract delivery service, or worse, the recommendation of the privatization of the Postal Service, as what has happened in the European

Post. This does not make sense to me. The USPS delivers 212 billion pieces of mail every year, roughly 700 million pieces per day. That equates to 46% of the world's card and letter mail volume. We do it cheaper and more efficiently, covering a larger geographical area, than any of the other postal services in the world. We shouldn't be looking towards any European models. As the World's leaders the USPS and U.S. mailing industry are unique in the World. Our USO and monopoly should only be considered in light of that.

The NRLCA plans to be proactive in the USO study. Three field hearings are planned throughout the country. The NRLCA has agreed to testify at the Flagstaff hearing at the end of May, commenting on the rural carrier perspective on the job we do delivering to every address, sometimes even driving on dirt roads.

It is also our opinion when the study concludes, the PRC should write the final USO/monopoly report drawing information from the field hearings and the contractor and write its own report. It should not be written by the contracted group as the Request for Proposal by the PRC suggests.

Mr. Chairman, and members of the subcommittee on Federal Workforce, Postal Service, and the District of Columbia, I thank you for allowing me to testify before you today. I would be happy to answer any additional questions you may have.

Mr. DAVIS. Mr. Reid.

STATEMENT OF MYKE REID

Mr. REID. Mr. Chairman, Mr. Marchant, Ms. Norton, Mr. Lynch, my name is Myke Reid. I am the legislative director of the American Postal Workers Union.

President William Burrus of the APWU could not be here this afternoon, so he asked that I present this testimony on his behalf and on behalf of the APWU. Thank you for providing us an opportunity to testify on behalf of more than 300,000 members of our union.

The recent enactment of the Postal Accountability and Enhancement Act [PAEA], was intended by Congress to preserve and protect the Postal Service for the American people. Whether the act will have its intended effect remains in doubt. Much depends on the dedication and commitment of the public servants, from rank-and-file postal workers to the Postmaster General, who are proud to provide the best postal services in the world to this country.

Much also depends on you, Mr. Chairman, and on this subcommittee. The Postal Service needs your support.

As we meet here today, there is an active and ongoing effort to dismantle the Postal Service as we know it, to privatize it and to turn its work over to for-profit companies. When Congress enacted the Postal Reorganization Act of 1970, Federal law had required for more than 100 years that letter mail be delivered anywhere in the country at a uniform rate.

According to the U.S. Postal Service and American history, 1785–2002, uniform rates for letter mail within the United States were established by 1855. The act of March 3, 1963, based postage for a letter on its weight and eliminated all differences based on distance, thus providing universal service to customers no matter where they lived in the country.

Section 101 of the Postal Reorganization Act, as amended by the PAEA, provides, “The United States Postal Service shall be operated as a basic and fundamental service provided to the people by the Government of the United States, authorized by the Constitution, created by act of Congress, and supported by the people. The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary and business correspondence of the people. It shall provide prompt, reliable and efficient services to patrons in all areas and shall render postal services to all communities. The cost of establishing and maintaining the Postal Service shall not be apportioned to impair the overall value of such service to the people.”

I mentioned a few minutes ago that there was an ongoing effort to privatize the U.S. Postal Service. One of the forms those efforts are taking is a purported study of the Universal Service Obligation of the Postal Service. Regrettably, it seems that the study of the Universal Service Obligation is being treated as an exercise in economics rather than an examination of public policy.

There are segments of our population for whom universal postal services at uniform rates remain critically important. Public policy, not economics, dictates that these people must be served. It is still

the specific intent of Congress stated in the law that effective postal services be ensured to residents of both urban and rural areas.

I am very concerned about the direction being taken by the Postal Regulatory Commission, which has undertaken through private contractors to study the Postal Service's Universal Service Obligation. My concern is that the PRC has selected as its contractors people who are on record as favoring privatization and as believing that the postal monopoly is needed to participate in this study.

One of these individuals is someone who has written extensively on postal topics, including presenting testimony before the Presidential Commission. He also prepared a controversial analysis of the PAEA that has been widely criticized. In his testimony before the Presidential Commission, he characterized the postal monopoly as having insidious effects, stating that the postal monopoly makes the Postal Service a victim, corrodes labor relations, intimidates customers, excuses endless political interference from Members of Congress, and is the chain that binds the Postal Service hand and foot.

These views are wrong and extreme. My reason for restating them here is that I want to make sure that the subcommittee is aware that these are the views of one of the two principal contractors selected by the PRC to help prepare its report on the Universal Service Obligation. Another principal of the contract selected by the PRC is also on record as in favor of dismantling the postal monopoly.

Unfortunately, it seems clear to us that the PRC, instead of selecting reputable and unbiased experts to present a well-rounded analysis of the Universal Service Obligation, has chosen individuals who are already on record as hostile to the postal monopoly and hostile to uniform rates.

Any fair analysis of the universal service would have to include pros and cons for the consideration of congressional policymakers. There are certainly credible differing views among economists and other postal analysts on the issues surrounding universal service.

Surveying the situation reminds of Harry Truman's famous attitude toward economists. He quipped that if you laid all the economists in Washington end to end, they would still point in all directions. The issue of the Universal Service Obligation is a public policy issue. It cannot and should not be driven solely by economists of any political stripe or of all political stripes.

The Postal Service belongs to the American people. It is a fundamental and valued service provided to the people of this country. The Universal Service Obligation is a public policy, not an economic analysis. I am confident that this subcommittee and this Congress will demand that it remain so.

In closing, I want to thank the subcommittee for providing APWU this opportunity to testify about important issues arising under the PAEA.

Mr. Chairman, I would be happy to respond to any questions that you or your subcommittee members may have.

Mr. DAVIS. Thank you very much, Mr. Reid.

[The prepared statement of Mr. Reid follows:]

APWU CONGRESSIONAL TESTIMONY

**American
Postal
Workers
Union,
AFL-CIO**

WILLIAM BURNUS
PRESIDENT

Before The

**SUBCOMMITTEE ON
FEDERAL WORKFORCE, POSTAL SERVICE,
AND THE DISTRICT OF COLUMBIA**

HONORABLE DANNY K. DAVIS, CHAIRMAN

**HOUSE OVERSIGHT AND GOVERNMENT REFORM
COMMITTEE**

**“The Economics of Universal Mail Post - PAEA
(Postal Accountability and Enhancement Act of 2006
PL 109-435)”**

**TESTIMONY OF MYKE REID
LEGISLATIVE DIRECTOR
AMERICAN POSTAL WORKERS UNION, AFL-CIO**

May 8, 2008

1300 L Street, NW
Washington, DC 20005
2-842-4250
Fax 202-842-4297
www.apwu.org

Mr. Chairman and members of the Committee. I am Myke Reid, Legislative Director of the American Postal Workers Union, AFL-CIO the APWU. President William Burrus of the APWU could not be here this morning, so he asked me to present this testimony on his behalf, and on behalf of the APWU. Thank you for providing us an opportunity to testify on behalf of our more than 300,000 members.

This hearing is being held at a critical juncture in the history of the United States Postal Service. The recent enactment of the Postal Accountability and Enhancement Act (the PAEA) was intended by Congress to preserve and protect the Postal Service for the American People. Whether the Act will have its intended effect remains in doubt. Much depends on the dedication and commitment of the public servants, from rank-and-file postal workers to the Postmaster General, who are proud to provide the best postal service in the world to this country. Much also depends on you, Mr. Chairman, and on this Committee. The Postal Service needs your support.

According to a recent Ponemon Institute survey report, the United States Postal Service is the federal agency most trusted to preserve privacy. In a separate survey where respondents listed companies they trust, the Postal Service is ranked among the top 10. It also provides excellent service, as I am sure the Committee is aware. The latest performance scores for overnight mail showed a 96% on-time performance; for two-day deliveries, the score was 94%; and for three-day deliveries 92%. In the Chairman's home city of Chicago, the most recent scores were 95% for overnight, 94% for two-day, and 90% for three-day deliveries.

As we meet here today, there is an active and ongoing effort to dismantle the Postal Service as we know it, to privatize it, and to turn its work over to for-profit companies. These efforts are motivated by the profit motives of postal competitors and fueled by ideological arguments that are fundamentally hostile to government-provided services. Before I describe these privatization efforts more specifically, I want to emphasize that Congress has not changed or diluted the fundamental purpose and mission of the Postal Service.

When Congress enacted the Postal Reorganization Act of 1970, federal law had required for more than 100 years that letter mail be delivered anywhere in the country at a uniform rate. According to "The United States Postal Service An American History 1775-2002," uniform rates for letter mail within the United States were established by 1855. "The Act of March 3, 1863 ... based postage for a letter on its weight and eliminated all differences based on distance, thus providing universal service to customers no matter where they lived in the country." (*Id.* at 11) Free delivery services expanded rapidly from urban to rural areas until, by 1902, free urban and rural delivery at uniform rates had become a permanent service. (*Id.* at 20-24). And these policies were embodied in the Postal Reorganization Act of 1970 – the PRA.

It bears emphasis that the PRA of 1970 was *amended* by the Postal Accountability and Enhancement Act – it was not *repealed* as some seem to believe. The PAEA was passed after many years of congressional study and many different efforts to legislate change that were *not* enacted. Efforts to bring change included many congressional hearings and a substantial study and report by a presidential commission appointed by President George W. Bush. After all that effort and all that study, Congress most assuredly knew what it was doing; and Congress never considered changing the fundamental purpose and mission of the United States Postal Service.

Section 101 of the Postal Reorganization Act, as amended by the PAEA, still provides: “The United States Postal Service shall be operated as a basic and fundamental service provided to the people by the Government of the United States, authorized by the Constitution, created by Act of Congress, and supported by the people. The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities. The costs of establishing and maintaining the Postal Service shall not be apportioned to impair the overall value of such service to the people.”

I mentioned a few minutes ago that there are ongoing efforts to privatize the United States Postal Service. One of the forms those efforts are taking is a purported study of the Universal Service Obligation of the Postal Service. Regrettably, it seems that the study of the Universal Service Obligation is being treated as an exercise in economics rather than an examination of public policy. But the United States Congress, not economists, has determined and will determine the policy of the United States Postal Service.

After all the study and work by Congress that led to the passage of the PAEA, Congress left in place the fundamental requirement, which is also stated in Section 101 of the Act, that: “The Postal Service shall provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining. No small post office shall be closed solely for operating at a deficit, it being the specific intent of the Congress that effective postal services be insured to residents of both urban and rural communities.”

There are both rural and urban areas of this country where people are heavily dependent on the United States Postal Service. There are segments of our population – the less affluent, the less educated, the economically disadvantaged, many among the elderly, and those in rural or inner city urban areas – for whom universal postal services at uniform rates remain critically important. Public policy, not economics, dictates that these people must be served. It is still “the specific intent of Congress” stated in the law, “that effective postal services be insured to residents of both urban and rural areas.”

Again, I want to emphasize that Congress has not changed the fundamental purpose and mission of the Postal Service. The law, in Section 403, still requires that the Postal Service “receive, transmit, and deliver throughout the United States, its territories and possessions ... written and printed matter, parcels, and like materials ...” and that the Postal Service “serve as nearly as practicable the entire population of the United States.”

This is the public policy of the United States established by Congress and written clearly into the law. This policy must not, and will not, be made subject to economic theories that focus on the financial advantage of businesses rather than on the welfare of the people who depend on postal services.

I am very concerned about the direction being taken by the Postal Regulatory Commission, which has undertaken, through private contractors, to study the Postal Service’s Universal Service Obligation. My concern is that the PRC has selected as its contractors people who are on record as favoring privatization and as believing that the postal monopoly is not needed. One of these individuals is someone who has written extensively on postal topics, including presenting testimony before the presidential commission. He also prepared a controversial “analysis” of the PAEA that has been widely criticized. In his testimony before the presidential commission, he characterized the postal monopoly as having “insidious effects” stating that the postal monopoly:

- Makes the Postal Service a victim
- Corrodes labor relations
- Intimidates customers
- Excuses endless political interference from members of Congress; and
- Is the “chain that binds the Postal Service hand and foot.”

These views are wrong – and extreme. I will not even bother to rebut them, for they speak for themselves. My reason for restating them here is that I want to make sure that the Committee is aware that these are the views of one of the two principal contractors selected by the PRC to help prepare its report on the Universal Service Obligation. The other principal contractor selected by the PRC is also on record as favoring dismantling the postal monopoly.

It is my understanding that real-life experience in the United Kingdom is providing a useful real-life counterpoint to the pseudo-economic analysis being offered by those who want to dismantle the postal monopoly. According to a recent report by the BBC, a government-sponsored report on the effects of the dismantling of the postal monopoly in the United Kingdom will show that, while large commercial enterprises have benefited, there have been no benefits for individuals or small businesses; and changes must be made to maintain the viability of

universal service. These are precisely the effects, and precisely the problems, the American Postal Workers Union has been warning about in its presentations to the presidential commission, to Congress, and to the PRC.

Unfortunately, it seems clear to us that the PRC, instead of selecting reputable and unbiased academic experts to present a well-rounded analysis of the Universal Service Obligation, has chosen individuals who are already on record as hostile to the postal monopoly and hostile to uniform rates. Any fair analysis of Universal Service would have to include pros and cons for the consideration of congressional policy makers. There are certainly credible differing views among economists and other postal analysts on the issues surrounding Universal Service.

Surveying this situation reminds me of Harry Truman's famous attitude towards economists. He quipped that "if you laid all the economists in Washington end to end, they would still point in all directions." The PRC may be following another aphorism attributed to Truman, that to get policy direction he intended to get himself a one-armed economist. The point of this observation is the point I made a few minutes ago. The issue of the Universal Service Obligation is a public policy issue; it cannot and should not be driven solely by economists of any political stripe or of all political stripes.

The Postal Service belongs to the American people. It is a fundamental service provided to the American people. The Universal Service Obligation is a public policy, not an economic analysis. I am confident that this Committee, and this Congress, will demand that it remain so.

In closing, I want to thank the committee for providing the APWU this opportunity to testify about important issues arising under the PAEA. We hope that our testimony will assist the committee in determining what needs to be done to protect and preserve the Postal Service for all Americans.

I will be happy to respond to any questions the Committee may have.

Mr. DAVIS. We will go right into some questions. I have one question I would just like to ask each of you, if you would respond to it.

Could you describe for us ways that the Postal Service has used the provisions of the new act to ensure the viability of the service, especially as it relates to the work that you do?

Mr. HEGARTY. I am not sure we know yet how it is going to relate to the work that we do, but I think the portions of the law that they are using to their advantage, that we have seen so far. And I think it is quite early yet—is the pricing flexibility that was discussed earlier and the volume discounts now, how that is going to affect us. Obviously, if it brings more customers into the Postal Service and we have more volume, our employees will be gainfully employed and possibly even increase the members of our craft.

One other thing that I think they need to look at down the road is the flexibility in rolling out new products. I think there is a new international product that they are looking at or have rolled out.

So, as I said, I think it is quite early in the game. But we are hoping that the Postal Service will use their flexibility to continue to bring mail into the buildings where we all work and the mail that we all deliver, depending on our craft, so that we can all work together for a viable Postal Service.

Mr. YOUNG. Just this morning I met with a group of letter carriers down here to lobby Congress, from Connecticut; and they were talking to me about one of the things that Jack Potter mentioned during his testimony, the fact they have now put a surcharge on Express Mail for Sunday delivery. My members are very concerned about this. One guy in Connecticut told me they got 19 special deliveries every Sunday. They now had one in the last three Sundays. Only one Express Mail in the last three Sundays.

I caution my members that part of the problem is the economic downturn and the fact that people that may have been willing to pay an extra penalty to get that mail on Sunday maybe don't have the money now and can't make that extra payment. So I agree with John in his statement that it is a little early to tell.

But, clearly, as the Postal Service starts to experiment in an area that they are not familiar with—and that is this new pricing flexibility that you all gave them in the law—they are going to struggle a little bit; and I think we have all got to look behind those decisions and make sure. And I have confidence that they will do that, but I am just saying, let's give them some credit here now. They are brand new at this, and they are going to have experience growing pains as they learn what they can and can't do and what the results of certain actions they are planning on taking are.

Mr. CANTRIEL. In our craft we are very hopeful that the flexibility you have given the Postal Service will allow them to bring in new customers and more volume. As a rural craft, we are pretty unique in the fact that our salaries are volume-driven, along with the number of deliveries and miles that we travel each day; and we are hoping that by giving the Postal Service the flexibility to go to those customers and offer them ways to get discounts and bring in bigger mailers, thus increasing the volume of mail that our rural craft handles, that we will see some stability built back into the Postal Service.

And as John mentioned earlier, as long as the Postal Service is stable, our jobs become more stable and it benefits all of us, and especially our customers out there, so we can take good care of them.

Mr. REID. Mr. Chairman, one of the examples that APWU would offer is sort of the carefully crafted language in the PAEA concerning work-sharing discounts with our—the language is designed to protect revenue and provide fairness in rate-setting. We are concerned that in recent rate filings since the law was passed, the Postal Service seems to be willing to circumvent the provisions of the law.

We certainly have a number of other examples that we would like to share with the subcommittee. If you would be interested, Mr. Chairman, we would like to put those examples together and provide them to the Chair.

Mr. DAVIS. Let me just ask you, we all know the importance of workplace culture—that is, the more harmonious relationships are that exist between labor, management—pretty much across-the-board, it increases, improves, creates levels of efficiency that become very helpful.

Are there any ways that any of you can think of that workplace culture might be improved that would also help increase productivity?

Mr. YOUNG. I would love to go first on that one.

I think the NALC has found one way, and that is through our alternate dispute resolution process. Grievances that used to linger for years and years, which left employees wondering whether they had been treated fairly or unfairly for 4, 5, 6 years, that is an employee that is not usually one willing to give a lot of discretionary effort, especially if their perception is they haven't been treated fairly.

We are now able to resolve our cases. In 1994, we had almost 30,000 cases pending regional arbitration. We did 2,000 a year. So figure it up, that is 15 years.

Now a person that gets, for instance, a removal in the Postal Service today, next month there will be in arbitration. So I think that is one way we found.

We are working very hard, our union. My executive vice president, Fred Rolando, is working on an alternate route inspection process. The process that we use right now, Congressman, is confrontational: It is like, the manager goes out with you and you use a minute—maybe a dog is tugging at the pantleg of your pants, he says, Well, that doesn't happen every day, so he deducts a minute from your time on the route; and then you get into a little debate over whether that is the appropriate thing to do or not.

It is just a very confrontational, acrimonious system. We don't see any reason for that.

We think we can devise a system. It is a very simple one. The one we are testing, you would laugh probably if I told you. But basically it is just, average the office time used by the carrier, average the street time used by the regular carrier, and give them what they use and go about your business. It looks very promising.

We are also cooperating, as I mentioned in my testimony, with the implementation of the flat sorter equipment. It is going to cost

my union some jobs, there is no question about that. The Postal Service thinks that number is 8,540. We will see; it is what it is. But nonetheless, we have always believed that the American public is entitled to the most efficient postal service we can give them, and if we don't do it, somebody else can, and we don't want that to happen.

So those are three ways that I think—that at least we believe—have potential, and I think the Postal Service would agree, have some potential at increasing that efficiency.

Let me also mention what Potter mentioned, so you don't forget. We have achieved more productivity increases in the last 5 years than the last 30 before that. So, clearly, we are working a lot harder and a lot more efficiently today than we were just 5 years ago.

Mr. DAVIS. Anyone else?

Mr. HEGARTY. I would like to highlight a couple of things, Mr. Chairman. One thing you may not be aware of is that we were asked, the four union presidents, a few months ago, to make a videotape with the chief human resources Officer and the executive vice president, Tony Veliante. And it was basically a roundtable discussion on how we could work to ensure the long-term viability of the Postal Service.

We talked about a lot of things—Do Not Mail, Vote By Mail, the Universal Service Obligation. And I think by making that tape from the headquarters level, it shows the commitment that it is not always an adversarial relationship.

You will notice in my testimony—there may have been a couple of digs in there about the way things are and things I would like to see changed, but it is not all bad. We have a good working relationship at the headquarters level, and that videotape shows that. Now, we were told that would be rolled out to the field and that our members would all have an opportunity to see that videotape at some point, either in the break rooms or on Postal Vision, which is a TV program that they show in the lobbies of the Postal Service, etc. So we wanted to get that message to our members, that, yes, we can work together on those things that we need to work together on.

Three programs that we have had some long-term success with in my craft, one is the quality of work life. And I mentioned that in prior testimony, where we work together within a facility. Both management and the union have to buy into that. It is not an adversarial relationship by any means; it is a cooperative relationship. That has worked very well for us.

Two fairly recent programs that we partner with the American Postal Workers Union and OSHA on, one is the VPP program, the Volunteer Protection Program, where a facility has to achieve almost a stellar safety record to qualify for star status. It is a very prestigious award, and we have had a lot of plants that actually do that, reduce their injuries.

Also the ergonomic risk reduction program. That is another headquarters-level initiative with the American Postal Workers Union and the Mail Handlers and postal headquarters, where we go into facilities and give the employees ownership of that process; where they tell the people who are evaluating the jobs what they

think would make their job easier to do, less stressful, and eliminate repetitive motion injuries.

All of those programs have been very successful.

Mr. DAVIS. All right.

Let me ask Mr. Marchant if he has questions.

Mr. MARCHANT. Thank you, Mr. Chairman.

Postmaster Potter and others have said that operating under the CPI-based rate cap poses some serious challenges to the Postal Service.

Do you agree, and would you make a comment on that comment?

Mr. YOUNG. Well, I will start off again.

Yes, I do agree. It poses significant challenges. But I point to this fact, Congressman: For the last 38 years, the Postal Service has been able to keep wages under the rate of inflation. So it is not an insurmountable challenge.

It is getting tougher and tougher every day. I think the questions that Congressman Clay asked about the gasoline prices are illustrative of that. I have every reason to believe, as we go into the future, it is going to be even more difficult than it was in the past. But I just believe that by finding win-win solutions—and this is all predicated, all predicated on our ability to work together.

I don't want to bang a dead horse here, but that is another reason why I caution so strongly against contracting out, because I can't get the men and women that I represent to give their all to the Postal Service when they think they are looking for ways to eliminate their jobs and give it to private contractors who don't get the benefits of annual leave, sick leave, vacation and health benefits that they do. That is a hard sell.

When I can show the members that I represent that the Postal Service is not going in that direction, like I can now with the moratoriums, it is a lot easier for me to get that kind of buy-in. And what I am suggesting is—and I say this not only to you, sir, but to my own members and to the Postal Service—if we don't find a way to work together, the employees and the employer, this institution will not survive, because there are those significant challenges in front of them.

Mr. MARCHANT. Thank you.

Mr. Hegarty.

Mr. HEGARTY. I agree with President Young. I think it is a challenge for the Postal Service, but I think the unions have cooperated with the Postal Service.

If you look at our collective bargaining agreements, most of them reached within the last year-and-a-half, it is modest raises. It is nothing out of the ordinary; as Postmaster General Potter stated, it is not a full COLA.

Many times people point and say you have cost-of-living and you have wage increases. I am not sure if the exact figure is 66 percent, but that is what Postmaster General Potter said. So we are actually under the rate of inflation with our wage increases, with our COLA. I would say in calendar year 2007 for the Mail Handlers, it was about 2.8 percent, which is almost exactly where the rate increases of 2.9 percent is going.

The other thing that our members stepped up to the plate and agreed to—because we vote on our contracts; I can't just sign a con-

tract with the Postmaster General; we send it out for a vote of our members—is, they have agreed to pay more for their health insurance every year during the 5 years of the contract, recognizing that the Postal Service needs some flexibility and recognizing that costs for health care are increasing.

So I think the unions have stepped up to the plate and recognized that fact as well.

Mr. MARCHANT. Thank you.

Mr. CANTRIEL. I agree with John and Bill both. The thing—there are some real challenges in the Postal Service. The thing that I think concerns our leadership and our membership is that the Postal Service will take Band-Aid steps to try to save money and not look at the long run.

And I think contracting out is one of the things that concerns us the most. Yes, it will save you some money maybe initially, but any good businessman will tell you, if you deliver a very good product and give a very good service, people are willing to pay for that, and if you deliver an inferior product, even though it is a little bit cheaper, it will hurt you in the long run.

That is one of our biggest fears with contracting out, that if it is allowed to just bring anyone in to do the jobs that our members are doing now, and both the Letter Carriers and our union are doing—and doing a very splendid job doing—we are afraid it will give the Postal Service a reputation of not delivering the type of service down the road that we feel is necessary to keep us a viable organization.

Mr. REID. Mr. Marchant, let me suggest this is a question better for President Burrus, who is not here today. During the shuffle, I lost my counsel and advisors over here. They are on the other side of the room. So I think if you could provide the question or if you would like that question addressed, we would certainly put it to Mr. Burrus and I will provide a response.

Mr. MARCHANT. Thank you, Mr. Chairman.

Mr. DAVIS. Thank you very much.

Mr. Lynch, we have about 10 minutes.

Mr. LINDER. I have a very brief comment and question.

I am particularly concerned about the Universal Service Obligation study, if you want to call it that, just to basically give voice or amplify the concerns that have been raised here already today about the objectivity of some of the contractors that have been chosen to conduct this study, this assessment on behalf of the Postal Regulatory Commission.

I would be willing to—and I am speaking just for myself at this point, but I would be willing to send a letter just questioning that whole process and the selection of those individuals. What I am looking for is, and again I am just speaking for myself, is objective information, a clear, just fact-based assessment. And the fact that these contractors have already, you know, exhibited very strong bias against certain aspects of the way the Post Office works right now, that is not helpful to me. I need something that is more objective and clean. So, I would probably not find that study very helpful.

So I am going to recommend that they go back, that they pick some objective, very intelligent and well-informed people, but peo-

ple who will give us a good, objective assessment of the situation right now. Again, I am speaking for myself.

Mr. Chairman, I thank you for your courtesy. I appreciate the shortness of time, and I am going to yield back my time.

Mr. DAVIS. Thank you very much.

Delegate Norton will handle the meeting until we get back.

Ms. NORTON [presiding]. Thank you, Mr. Chairman. I vote in this committee, thank goodness, though not yet on the House floor—any day now if the Senate version of democracy, which is 60 rather than 51, is finally understood; and we think we are very close.

So it is important that Members who do have to go are able to go. I vote in the Committee of the Whole, but I am told this is in the full House.

As some of you may know from my past interventions in these hearings, I am fascinated by what it is the Postal Service and its employees are being asked to do.

One of you mentioned the word “monopoly.” I think it may have been you, Mr. Reid. That is exactly how you are treated, except, of course, you are not a monopoly. There are all kinds of new postal services, if you will, who have cropped up since 1971, when you were a monopoly and we said, Oh, well, you just do what the private sector does.

There wasn’t no private sector, to speak of. There was no IT, there was no—essentially, of course, Congress was not clairvoyant, did not foresee that there would be, essentially, competitors that were in the self-same business in every aspect of the word.

I just find this a fascinating problem. This is the academic in me still coming out, that I can’t believe that this can’t work, and yet I can’t believe that it can. And the only way to do this is to approach it with the straitjacket that is there, and then, because of the incremental way in which the Congress works, to go step by step to see whether or not there is anything to be done.

You notice we weren’t very incremental when we decided to essentially paste onto a universal service, without subsidy, a market system, a rate system and market system practice, while saying, We double-dare you not to act like a public service, because you remain a public service.

Well, OK, let’s see if that can work.

Well, we have gone through a lot in this committee. The Postal Service is up and standing. I sometimes marvel at that.

Let me take a tough issue, the issue that troubles me greatly, the outsourcing issue, because we know that the Federal Government is sometimes the prime target. And you are sitting here with a subcommittee of a committee that has, since we have been in the majority, just laid out the limitations of essentially contracting out the government, where the government, frankly, would need to have a government just to keep track of the contractors, which means, essentially they are on their own.

So we say, you know, you can contract out only things that shouldn’t necessarily be done by the government. Well, is mail service one of those? I would have thought so, or else we would have privatized the mail service ourselves. So we give no subsidy.

I am on another committee and always look for an analogy. The closest analogy I can come up with is Amtrak, but we subsidize

Amtrak. It is falling apart, it is not much of a subsidy, but it is money that comes out of here annually for Amtrak.

So I don't really have an analogy. I don't really have a similar paradigm. So I use these hearings to think through whether or not market practices can work. And if they can't, to what extent does Congress have an obligation to alter them in any way?

Well, if we contract out, the Federal Government has been contracting out, and we have contracted out a whole war. There are more contractors in Iraq than there are military. You see what that got us, Blackwater and the rest. That wasn't even known until we got in the majority and began to have hearings.

Some of those abuses, some of the reasons why we can't keep track, can't possibly keep track without having a work force almost equal in number to the work force out there, keep track of dollars—in your case, dollars that come from the public; in our case, taxpayer dollars—is really the challenge.

All right. One of the things is, do we do it? Are we stuck with, we do it with the consequences that we have seen, albeit we have just gotten into the majority. But it was done under Democratic Presidents too. So I am fascinated by how long the Postal Service can resist, particularly since you use collective bargaining, you have to bargain these things out. And my congratulations, how you have done so on outsourcing, but that is what you have done.

You have a moratorium on any new contracting. It really distressed me to see that the contracting had moved from the way Postal Service had always done it and that, apparently, the unions had taken no exception to it; and that is way-out places where there was some contracting done in apparently very rural areas and the rest.

And then we had testimony that in suburban areas and areas, we even had testimony of parts of cities where contracting out had occurred. So there was clearly creeping contracting.

We weren't sure that was being thought through, except in the usual way. You know, it must cost less if the private sector does it.

Of course, our own hearings have shown that not to be the case. And if you want it to be the case, you had better have some folks in fact monitoring it to see it is the case.

And we have passed 876, we have done a lot of things, and still haven't been able to hold the private sector to that standard. We know we don't hold them to a quality standard.

You've got this moratorium on new contracting. Currently—is it your testimony, Mr. Young—where it's been extended. It shows the strength of collective bargaining.

I have two questions on that. What are the prospects that you will be able to continue that? And what are the ramifications of continuing it, given the problems, some of which have been outlined here, of the Postal Service?

Particularly today in a downturned economy, you are very market-sensitive, in that sense. I mean, are there real alternatives to going the, really, cheap and dirty way without recognizing or caring about the consequences that the Federal Government to a great extent has done and that apparently some private-sector employers do?

Are there alternatives that the Postal Service ought to be looking at?

Look, the whole thing is an innovation. Well, is there a way to look at this public service, to look at its employees, the quality we get out of them, while relying on you, because that's all we have and this is a bargainable issue, to somehow keep outsourcing out? If not outsourcing, given what they think is savings, what should they do?

And the other thing, in answering that question whether you have any better ideas, whether prospects of extending it, at the bargaining table, do they have to show and are they able to show savings?

Mr. YOUNG. Let me try to start out with that, if you would, Congresslady.

First of all, I think you understand that the danger or one of the dangers of contracting out is, if you do too much of it and the contractors are as bad as some of them have been, it won't be long until the public loses faith in the ability of the mail system to privately, efficiently deliver their mail.

Congressman Hayes mentioned this in his opening statement. Just last week, the Ponemon Institute, for the 4th straight year, recognized the Postal Service as the most trusted Government agency of all 74 agencies. And it just keeps happening. We've earned the trust of the American public, and we've done it by efficiently and privately delivering their mail. And any attempt to interfere with that is going to hurt that.

I also want to alert you to something, and I would be happy to provide your office with this, if you're interested. Just this week—I couldn't have timed it better if I'd have wrote the thing myself—there is a report from the International Postal Services about the privatization effort in Europe. And the bottom line of that report is, it has produced no tangible benefit at all and it's destroyed universal service in Europe. I think that is something that the Congress would be very interested, at least I hope it is, something that the Congress would be very interested in doing.

It bothers me, Congresswoman Norton, that the Government would play a role in destroying the middle class. Postal Service jobs are not high-paying jobs. They are good, middle-class jobs. I don't say no, but why would the Government encourage the Postal Service to contract out jobs?

Potter said they saved 50 percent. There is no magic here. Seventeen percent is your annuity. Private contractors don't have an annuity; that's a retirement plan. A certain percentage of that, probably 10 percent or more, is to health benefits. Private contractors don't have health benefits. They don't have sick leave, they don't have annual leave, they don't have family medical leave.

If this is what the Government wants to do, it's going to produce a result and some unintended consequences, I believe. And it's something that we ought to walk very slowly on.

But more important, probably, to you is what you asked me: If they can't do that, they've got to do something else; what is it? And I think you're right-on again. We have to learn to work together.

Look, just a few years ago, the Postal Service spent \$900 million in 1 year fighting over grievances with their unions. If that's not

total insanity, I don't know what is. I talk to people in the auto workers industry, they tell me, yeah, we go to arbitration maybe five times a year. And my little union is going 2,000 times a year? That doesn't make sense.

Now, we have taken the steps——

Ms. NORTON. Why is it? Why do you believe you go so often?

Mr. YOUNG. Well, we don't now. This was before. This was before we changed our grievance procedure. We did because we couldn't resolve any issues. At the third step of the grievance procedure, which is the regional level, 40 percent of the cases were being resolved; 60 percent had to be appealed. Today, with the new system we put in, 88 percent of the cases are being resolved at that level, and of the 12 percent that go forward, 60 percent of them are settled before the arbitration date.

So I think we're on to the cusp of some things. Working more efficiently, supporting the Postal Service's automation programs, encouraging discretionary effort from the members that we represent, that's something that all of us at this table can and do do almost daily. But that has to be in the right environment.

And I strongly suggest to you that it's very difficult for any elected union representative to try to get discretionary effort out of employees when they believe that the boss is plotting to eliminate them with lower-paid, nonbenefit workers. That's a hard sell.

So I think that, allow us to do—Potter was talking about these increases in productivity. Allow us to continue to do that. Allow us to work on efficiencies.

John should be congratulated about the efforts they've made with the ergonomics program and reducing injuries. Our craft is also involved in that. I just saw a report from the Office of Department of Labor where injuries are down significantly in the Postal Service in the last 3 years, and that's a credit to what these folks are doing. That's an expensive thing. That's a way of saving money.

My bottom line is this, and I'm sorry it took me so long to get to it: Allow us to work together.

And then just one last thing, and after this I'll be quiet. I want to ask that you seriously don't tumble. I just got word that FedEx came up here and told you all that they would deliver the Nation's mail ballots for nothing. I'm telling you, they haven't earned the trust that the members that I represent have earned for the last 200 years.

If anybody is going to deliver the Nation's mail ballots, it ought to be the dedicated postal employees. America trusts us because we have proven ourselves. We shouldn't be giving this work. And it bothers me that the Government uses our competitor services instead of us. This is a quasi-Government agency.

Ms. NORTON. Did we say we would do it? Have we already said we would do that?

Mr. YOUNG. No. No. Thank God, bless you, no. I hope you never say you do it. It was told to me that it might be reported out of a committee, and that didn't even happen, thank God.

And, look, I congratulate Fred Smith; he's trying to get his foot in the door. Congratulations to him. But the fact of the matter is that if that's going to happen, that's sacrosanct in this country.

And we should very careful who we turn the trust of the election and the election of the public officials over to.

And I'd just say, my members have already proved it. We've done it in Oregon for a number of years now. There's been no issues, no claims of fraud, none of that. We've proven our ability to do it.

And if you want to do it through the mail, and I strongly recommend you do, there's a win-win. It's good for the bottom line on the Postal Service; it's good for the American public.

This Government was founded on everybody voting. 87 percent of the citizens in Oregon voted in the last election. That tells me what I need to know, that's the best way for people to vote in this country, and I hope you all support it.

Thank you.

Mr. CANTRIEL. Ms. Norton, I'd like to make a little clarification. I'm afraid you're under the misconception that the moratorium on the contracting out has been offered to all the unions. And even though we've been, thanks to Bill Young, asked to join on that committee to look at ways to work out a compromise on contracting out, the rural carriers have not been offered that same moratorium.

I think you need to realize, and I think Bill will admit, that the lion's share of the growth is going to be out in the more rural areas, and that the potential for contracting out is much greater in the areas that we serve versus the areas that the NALC serves.

And the Postal Service has been very reluctant to even have very meaningful talks with us about putting any moratorium on contracting out. The willingness has been with Bill and his group. And I want to thank Bill publicly for bringing us into that committee and allowing us to be part of that, because I really think he was probably the one responsible for that. And we certainly appreciate that.

And we look forward to working with him on that committee, and we try to convince the Postal Service to offer us the same benefit of that moratorium until we can work some of these things out.

Ms. NORTON. The difference is that they already had their foot in the door, didn't they, with rural areas? And they are expanding into areas they've never been to before with contracting out in Mr. Young's areas?

Mr. CANTRIEL. The expansion is also in our area, too, because the only contracting we had before required that it be in very sparsely populated areas. And they purposely deleted that language from the manuals, which allowed them to move into areas where there are more than 12 deliveries per about one family per mile. And they have been more aggressive.

And I think you've heard over the testimony, the last couple of times that we've been here, that the percentage of contracting out on the rural areas continues to go up and up in the Postal Service.

Mr. REID. Madam Chairman, I'd just like to say—and I'm sorry I brought it up so late after Mr. Lynch had left—but like President Hegarty of the Mail Handlers, we support H.R. 4236, a bill by Congressman Lynch to restrict contracting out in the Postal Service.

In recent months, there certainly have been horror stories about contracting in Federal jobs. There's Blackwater, there's Walter Reed, you know, any number of instances where contracting out Federal jobs has been a terrible idea. Legislation has just been

passed to stop the contracting out of collection in the Internal Revenue Service. I understand Congresswoman Schakowsky is introducing legislation to cut back on contracting in the intelligence industry. So there are any number of cases where contracting has just turned out to be a horrible thing.

It seems that the Postal Service is interested in joining the race to the bottom, the lowest-paid employees, the least efficient service, and somehow being tagged as the Wal-Mart of Federal agencies. And we're certainly opposed to this.

We would hope this Congress would, at some point, pass a total ban on contracting out of Federal and postal jobs.

Ms. NORTON. And, you know, they should pass one against contracting out their own jobs, as well. I say that to let you know just how widespread it is.

I think part of the difficulty—I think we would have to find something to hook it to that is a Federal interest, because the reason is that this is a bargainable issue, apparently. In fact, you've been bargaining over, and so there is the issue of whether or not the Government would be interfering with collective bargaining.

I'm just putting the issues that will come up on the table, not to indicate that I don't think it can be done, but the only way to get through hard issues is to think, well, if not that, how do you get through the fact that this is a bargainable issue? How do you get through the fact that the Government itself is doing it?

Well, for one thing, security—the mail, for goodness sakes. One would have to make the case about security, about their employees, about the nature of mail and privacy, in order to overcome what is also an iron-clad notion of the market system, which is, if it's bargainable, the Government doesn't intervene. So I'm looking for things like that.

And let me just say, you know the way in which America operates, not just the Congress: You have to have a catastrophe before somebody says, "Oh, my God, let's do something about that."

Now, that's how we got the TSA, the people who look at your luggage that have been contracted out to all the airlines, and they contracted them. And so now all of those are Federal employees. But look what happened before we decided that. And we were in a minority then. We were able to get the Republicans to go along with this.

So I'm hearing you. And I know there will be a terrible and serious breach, at some point. I would love to deal with this on a preventative basis. And I think you say there's a member who's filed on the basis of security for at least some matters. Maybe we should go from there.

I don't know if any of the rest of you have something to say about this. I do want to compliment—I mean, I think you're right on the money with what you've done with grievances. I remember that came up at one of the hearings before.

This kind of parallels my own experience at the EOC when I came, and everybody felt they had to file a complaint, had to take the complaint for 2 years. Except we found that, after 2 years, almost everybody got nothing. So when I came in, I said I'm going to settle cases early so that only those cases that need and deserve

the attention of the Government—"Oh, Eleanor is going to let the employer sell us out."

And what we found out was that the remedy rate escalated to three times what it was. People who wouldn't have gotten any remedy got one because it was in the employee's best interest not to go through the whole system. Obviously, employers liked it, but they liked it largely because of the amount of money it cost them to go 2 years in a system where they were going to come out on top but having spent a lot of money.

So you all do have some control over that, because you can make employees understand. The way we made them understand was to use the investigator at the beginning to bring in, before there was any formal procedure, let the employer put his best case forward, give you 5 minutes, give you 5 minutes. Then another investigator would take them to the side and say, do you want to go forward? You have some chance of winning, some chance of losing; tell them what the chances are. They began to settle cases. That's a very smart thing to do.

And I must say, I saw all kinds of smart things that the unions are doing and, for that matter, the Postal Service is doing with its products, with its discounts. It really is acting like private sector, to the extent that it can.

I asked staff, no one can tell me this yet, but I need to find out something that bothered me in the Federal sector, something that is in Mr. Keating's testimony. You know, we don't subsidize, the employers don't get any subsidy with the new pharmaceutical, because we are the employer. And he says that doesn't happen, either, here.

Mr. YOUNG. That was in my testimony.

Ms. NORTON. Oh, that was in your testimony?

Mr. YOUNG. Yes, Congresslady. See, when the Government passed it, if you read the law, it says anybody that provides the level of benefits that's superior to Medicare is eligible. It doesn't exclude anybody. But all of a sudden, when the Postal Service applied for those benefits, they were told no, because they're part of the FEHB program. And somebody in the administration—

Ms. NORTON. Part of what program?

Mr. YOUNG. The FEHB, the Federal Employees Health Benefits—I'm sorry, we use these acronyms—Federal Employees Health Benefits Program.

Ms. NORTON. Yes, but for us, it really is an exchange of one pocket to another pocket.

Mr. YOUNG. I understand that. I don't disagree. But the Postal Service, because they were off-budget—and that was done a number of years ago—it's not the same.

Let me show you the irony of it. My union, for the employers that we hire to work at my union, we give them a FEHB-like program. It's not FEHB, they're not part of it, but the benefits are exactly the same. We just administer it ourselves. We got the subsidy. I got a check for X amount of money. I don't know what the—it wasn't insignificant.

Ms. NORTON. The union did?

Mr. YOUNG. The union, yes, for providing the same exact benefits that Postal Service provides to their employees.

So if they're not on-budget, what would be the rationale for keeping that money away from them? And my economist tells me that could be \$8 million a year.

Ms. NORTON. We, the Federal Government, picks up something like 70 percent—of course, we've been stuck on that forever—of FEHBP, or whatever program we're in.

Mr. YOUNG. But not for the Postal Service. The Postal Service has to pay that themselves.

Ms. NORTON. So you have the same kind of 70/30, but you pay it?

Mr. YOUNG. Ours is 85/15 at the end of this contract.

Ms. NORTON. You probably get it.

Mr. YOUNG. I don't know how we got it. It was more. We negotiated a better deal. And now, like one of these representatives said, we had to step back and take a little decrease this time.

The point I am making, though, is simply this. The Federal Government doesn't pay a nickel for anybody's health benefits in the Postal Service. They do for other Government workers, but the Postal Service is off-budget now. And the Postal Service and the employee have to pay 100 percent of those costs.

So my thought is, as long as they're paying for it, it isn't the Government paying the Government, and they ought to be eligible for those subsidies. And I think the law will support me on that, but I leave it to you.

Ms. NORTON. I'm looking for where money can be found on an equitable basis. Here, let's talk equality. You've got to pass it somewhere. You can pass it to the postal customer. At some point, somebody's got to pay. And these are huge costs.

You're private sector—the union's private sector, but so is FedEx. They qualify for subsidies for their retirees, and you do not, for this new benefit?

Mr. YOUNG. Exactly.

Ms. NORTON. Now, you know, I always try to think, "Think, Eleanor, what is the argument on the other side?" I'm coming up dry on this one. I don't understand the argument on the other side for not, in fact, subsidizing the Postal Service. I understand that the Postal Service has tried to get it; the Bush administration has resisted it.

Look, it is very expensive, but it is expensive no matter what we do.

Now, we don't subsidize you for anything.

Mr. YOUNG. That's right.

Ms. NORTON. So cutting you off from a subsidy we give to every other employer in the private sector while treating you as an employer in the private sector, I'm not quite sure I get it.

I have to think of the best argument from their—or, have they given you an argument? Have they given you a reason? Do you know of a reason that the Postal Service has gotten—I think the Postal Service has tried.

Mr. HEGARTY. The only the reason I've heard is OPM said that taking the money from one account and putting it into another account within the Government doesn't make any sense, and they didn't want to do it.

But I agree with Brother Young; it's not taking it from a taxpayer account and putting it into a taxpayer account. It's taking it from the taxpayer or OPM and giving it back to the Postal Service, just like any other non-Government entity would have. And, for those purposes, we are a non-Government entity.

Ms. NORTON. I don't find any—we subsidize Amtrak. I asked staff, give me an example of anything like that. And the best they could come up with, not subsidy but revenue foregone, for example, blind. That's not a subsidy. A subsidy means, here's some money, not because you're doing something we would do. But Amtrak would say, here's some money, because the private sector can't run a train without some money. And this essentially is what a subsidy is.

When the chairman comes back, it does seem to me that one thing this committee can do is look very seriously at the denial of a private-sector employer benefit for retirees to the Postal Service, which is treated in every other way as a private-sector employer.

You've got to tell me the argument on the other side. I'm sure that the Bush administration doesn't need one, but I think that we've got to find one. It's going to cost some money.

What bothers me about what you said from one pocket to the other, it's pockets of customers who are going to ultimately—nobody is going to pay this every year without, at some point, going to the Rate Commission and saying, we need some more money, and we need it because the Government says, among other things, that we've got to pay for this new service voted by the Congress.

I will call a recess until those who can vote finish voting. They'll be back.

[Recess.]

Mr. DAVIS [presiding]. Let me welcome our third panel.

And they consist of Mr. Dale Goff, who is in his 36th year with the Postal Service. He began as a postal assistant in New Orleans and has been a National Association of Postmasters of the United States [NAPUS], member and a postmaster for 26 years.

Thank you, Mr. Goff, and welcome.

Charlie Mapa has been postmaster at Gold Run for 21 years and is currently on leave from that position to serve with the League.

Mr. Mapa, thank you.

Ted Keating is the president of the National Association of Postal Supervisors, which represents the interests of 35,000 postal managers, supervisors and postmasters employed by the U.S. Postal Service. Mr. Keating assumed the presidency of the Association in 2004 and was elected to continue serving NAPS in that capacity in 2006.

Gentlemen, if you would stand and raise your right hand to be sworn in.

[Witnesses sworn.]

Mr. DAVIS. The record will show that the witnesses answered in the affirmative.

Gentlemen, we thank you very much.

Of course, you know that your entire statement will be included in the record. And if you would take 5 minutes and summarize. One minute is indicated by the yellow signal, and of course red means that the time is up.

And we thank you very much.
And we will begin with Mr. Goff.

STATEMENTS OF OSCAR DALE GOFF, JR., NATIONAL PRESIDENT, NATIONAL ASSOCIATION OF POSTMASTERS OF THE UNITED STATES; CHARLES W. MAPA, PRESIDENT, NATIONAL LEAGUE OF POSTMASTERS; AND TED KEATING, PRESIDENT, NATIONAL ASSOCIATION OF POSTAL SUPERVISORS

STATEMENT OF DALE GOFF

Mr. GOFF. Thank you, Mr. Chairman. And I do intend to summarize my prepared remarks.

I am Dale Goff, president of the 40,000-member National Association of Postmasters of the United States. It is an honor to once again present to Congress the views of our country's postmasters regarding the implementation of the Postal Accountability and Enhancement Act.

Mr. Chairman, with your permission, I would like to begin by stressing the importance of a universal postal service. Next year, Congress will have the opportunity to review recommendations made by the PRC relating to universal service. Postmasters believe that Congress, the President and the PRC must view universal service in a broad social and political context.

Understandably, universal service has evolved over the over-200-year history of our national postal system. However, postal policymakers have consistently strived to improve the quality of postal products, make these products more affordable and more accessible.

Indeed, accessibility and consistency are the key hallmarks of the U.S. Postal Service. These characteristics afford postal products tremendous value to our customers, a value that would be dealt a devastating blow should universal service be undermined or the quality of postal services be compromised.

Moreover, balkanization of the Postal Service through subcontracting intrinsic and historic governmental functions would undercut customer trust in our postal network. In fact, just 1 month ago, the Ponemon Institute revealed that the U.S. Postal Service retained its status as the most trusted Federal organization, with a privacy trust score of 86 percent. This represents a 3 percent increase over the previous year.

Post offices are the bedrock of a universal postal system. They serve as outposts of commerce and connectivity to countless communities across the American landscape. Towns in rural and isolated regions and residential urban communities and economically challenged quarters would be underserved without a strong and governmental universal service obligation.

Service uniformity and accessibility are essential to this obligation. Class-based postal services, where different locales are provided different levels of service from different postal providers, would be contrary to universal service and undermines confidence in our postal system.

Mr. Chairman, as postmaster of Covington, LA, I can appreciate the importance of the Postal Service. As a survivor of Hurricane Katrina, many, many of our communities back at home would be

left awash without postal services. Liberalization of the postal monopoly would irreparably undercut Government engagement during times of crisis.

For example, Mr. Chairman, when nongovernmental privateers arrived, allegedly to provide aid, they exploited and profited at the expense of many Gulf Coast communities. This kind of motivation is not what America needs within our postal network. A universal postal service continues to bind devastated Louisiana communities together to the rest of the country and to the world.

I believe that Congress appreciates the necessity to protect universal service, even in the economically challenging times in which we now find ourselves.

Public Law 109-435 provides the Postal Service with a greater degree of flexibility in pricing and products. NAPUS has pledged to work with the postal headquarters to expand offered services at rural post offices. There is untapped postal revenue to be realized in the hills and byways of America. The new law enables the Postal Service to establish and expand these revenue-producing activities. With appropriate resources, postmasters would welcome these opportunities.

Congress has a pivotal role in assuring postal quality and steadfast accountability. Unfortunately, staffing shortages continue to plague post offices across the country. Rank-and-file postal positions, including those dedicated to window service and carrier routes, remain unfilled or triaged with subpar bandages. Deficient staffing weakens our service by slashing window hours and inconsistent or late mail deliveries.

Moreover, postmasters are forced to put aside their managerial functions to offset staffing deficiencies. This phenomenon devastates postmaster morale, diminishes product quality and undermines compliance with a variety of management directives. Overburdening postmasters compromises their administrative functions, reflects poorly on USPS accountability, and makes it difficult to live up to the Sarbanes-Oxley Act.

Moreover, the USPS will have great difficulty meeting service standards consistent with the postal legislation without the necessary and appropriately trained complement of employees.

Mr. Chairman, quality and accountability are what our customers care about. Consequently, NAPUS is attentive to the Consolidated Appropriation Act of 2008, which directs the Postal Service to convey to Congress in writing by June 23rd its efforts to solicit and take into consideration the views of local postal management in the development of appropriate staffing levels to ensure that postal customers receive the quality mail service that they expect and deserve.

Finally, NAPUS cautions Congress against looking favorably on State efforts to establish Do Not Mail registries. So far, these initiatives have failed to garner enough support to reach a vote in any of the 15 States that considered the concept in 2007 or the 9 States that began this year with such legislation.

Currently, there is no Federal legislation restricting advertising or nonprofit solicitation mail. Nonetheless, NAPUS is vigilant against attempts to place a legislative chokehold on mail commerce.

These types of postal products are vital to the future of the American economy and the Postal Service. In 2007, advertising mail contributed more than \$686 million in increased sales to the U.S. economy, and 300,683 small businesses generated more than 20.8 billion pieces of mail. This volume helps to buttress the Postal Service against the decline in first-class postage revenue, revenue essential for postal jobs and universal mail service.

Mr. Chairman, I would conclude my testimony with where I began: The full potential and success of our national treasure, the Postal Service, relies on its continued ability to provide universal mail service to America, to use its available tools to weather economic squalls, to be granted access to the fiscal opportunities as other employees, and not to be strangled by ill-advised legislation.

Thank you for the opportunity for NAPUS to present its views, and I will entertain any questions.

[The prepared statement of Mr. Goff follows:]



**NATIONAL ASSOCIATION OF POSTMASTERS
OF THE UNITED STATES**

TESTIMONY OF
OSCAR "DALE" GOFF, JR.
NATIONAL PRESIDENT

BEFORE THE

HOUSE SUBCOMMITTEE ON
THE FEDERAL WORKFORCE, POSTAL SERVICE,
AND DISTRICT OF COLUMBIA

MAY 8, 2008

Mr. Chairman, Ranking Member Marchant, and distinguished Subcommittee members, I am Dale Goff, President of the 40,000-member National Association of Postmasters of the United States. It is an honor to once again present to Congress the views of our country's Postmasters, regarding the implementation of the Postal Accountability and Enhancement Act. The Subcommittee's invitation referenced this hearing as exploring the economics of universal mail service in the wake of the new postal statute. Moreover, the invite requested witnesses to address a variety of issues concerning postal operations. The future of a universal Postal Service and effect of the recession on postal operations will be the focus of NAPUS' testimony.

Mr. Chairman, with your permission, I would like to begin my testimony by stressing the importance of a "universal" Postal Service. Next year, this is an issue that may approach front-and-center. Congress will have the opportunity to review recommendations made by the PRC relating to universal service. Postmasters fervently believe that Congress, the President and the PRC must view universal service in a broad social and political context, not simply donning green eyeshades and scrutinizing universal service in purely economic terms. Understandably, universal service has evolved over the over-two hundred year history of our national postal system; however, postal policy-makers have consistently strived to improve the quality of postal products, make these products more affordable and more accessible. Indeed, accessibility and consistency are the key hallmarks of the U.S. Postal Service. These characteristics afford postal products tremendous value to our customers – a value that would be dealt a devastating blow should universal service be undermined or the quality of postal services be compromised.

Moreover, balkanization of the Postal Service through subcontracting intrinsic and historic governmental functions would undercut exemplary consumer trust in our postal network. In fact, just one month ago, the Ponemon Institute revealed that the U.S. Postal Service retained its status as the most trusted federal organization, with a “privacy trust score” of 86%; this represents a 3% increase over the previous year.

The approximately 27,000 independent Post Offices are the bedrock of a universal postal system; they serve as outposts of commerce and connectivity to countless communities across the American landscape. Towns in rural and isolated regions and residential urban communities in economically challenged quarters would be underserved without a strong and *governmental* universal service obligation. Uniformity of service and accessibility to these services are essential to this sacrosanct obligation. Class-based postal services, where different locales are provided different levels of service, from different postal providers would be contrary to universal service, and would undermine confidence in our national postal system.

As the Postmaster of Covington, Louisiana, I identify with the clarion mission for Postal ubiquity. I know that Gulf Coast communities devastated by Hurricane Katrina would have been left awash, without postal services. Those who may urge the PRC or the Congress to liberalize the postal monopoly cannot guarantee the level of response and commitment that the U.S. Postal Service has time-and- time again exhibited during times of crisis. When non-governmental privateers arrived, allegedly to provide assistance, they tended to exploit and profit at the expense of many Gulf Coast communities. This kind

of motivation is not what America needs within a postal network. However, I can recount stories, first hand, of how the universal U.S. Postal Service continues to bind devastated Louisiana communities together, to the rest of the country, and to the world. In fact, the Post Office's ability to be the sole federal representative in isolated regions is an unquantifiable strength that must be strengthened not weakened. I believe that enhancing this role secures universal service for generations to come.

I believe that Congress appreciates the necessity to protect universal service, even in the economically challenging times in which we now find ourselves. Public Law 109-435 provides the Postal Service with a greater degree of flexibility in pricing and products. NAPUS has pledged to work collaboratively with Postal Headquarters to expand offered services at rural Post Offices. In rural areas, there is a paucity of financial and service-oriented institutions. Automatic teller machines, state licensing and other services are ripe for Postal involvement. It is essential that the Postal Service leverage its wide and deep retail footprint to bring these services to outlying and isolated communities. In addition to providing invaluable services to rural America, there is untapped postal revenue to be realized in the hills and byways of America. The new law enables the Postal Service to establish and expand these revenue-producing activities. With appropriate resources, Postmasters would welcome these opportunities.

In past testimony, NAPUS has suggested that Congress has a pivotal role in assuring reliable postal quality and steadfast accountability. Unfortunately, staffing shortages continue to plague Post Offices across the country. Rank and file postal positions,

including those dedicated to window service and carrier routes, remain unfilled or triaged with sub par bandages. Deficient staffing weakens the quality of our service by slashed hours of service to the postal customers, and inconsistent or late mail deliveries. Moreover, Postmasters are forced to supplant their managerial functions to compensate for the deficiencies. Juggling these responsibilities, with finite number hours to the workday, has a devastating impact on Postmaster morale, diminishes the quality of our product, and undermines the capability of frontline managers to satisfactorily ensure compliance with a variety of management directives. This added Postmaster burden, compromises their administrative functions, reflect poorly on USPS accountability, and makes it difficult to comply with section 404 of the Sarbanes-Oxley Act. Moreover, the USPS will have great difficulty meeting appropriate service-standards, consistent with the postal legislation, without the necessary and appropriately trained complement of employees. In these uncertain economic times, it is important to safeguard the quality of our services, and we need to be accountable to our customers. Consequently, NAPUS is particularly interested in a report requested, as part of the Consolidated Appropriation Act of 2008 (Public Law 110-161), which directs the Postal Service to convey to Congress, in writing, by June 23, its efforts “to solicit and take into consideration the views of local postal management in the development of appropriate staffing levels to ensure that postal customers receive the quality mail service that they expect and deserve.”

Congress can assist the Postal Service navigate through the 2007-2008 recession. Up to now, the Administration has refused to grant the Postal Service its entitled benefit from a

Medicare Part D employer subsidy program. Public Law 108-173 clearly sanctions Postal Service participation in the subsidy program. The statute allows employer sponsors of group health insurance plans that cover prescription drug benefits for their Medicare-eligible retirees an “employer subsidy.” The subsidy would provide a benefit to the USPS of about \$250 million per year. NAPUS urges Congress to compel the White House to authorize the Postal Service’s rightful subsidy.

We also urge the Congress to enact legislation to establish “no excuse” absentee balloting in federal elections. While this bill would not effect the 2008 elections, it would impact future ones. Recently, the Committee on House Administration favorably reported H.R. 281, the Universal Right to Vote by Mail Act, by voice vote. NAPUS hopes that the House will have the opportunity to approve H.R. 281 in the very near future. The measure would have the dual benefit of making federal elections more accessible, thereby boosting voter participation without lengthening polling place congestion. The Act would also help increase postage revenue by encouraging voters to participate in elections, via the U.S. mail stream.

Finally, NAPUS cautions Congress against looking favorably on state efforts to establish “do not mail” registries. So far, these initiatives have failed to garner enough support to reach a vote in any of the 15 states that considered the concept in 2007, or the 9 states that began this year with such legislation. Currently, there is no federal legislation restricting advertising, or nonprofit solicitation mail. Nonetheless, NAPUS is vigilant against attempts to place a legislative chokehold on mail commerce. These types of postal

products are vital to the future of the American economy and the Postal Service. In 2007, advertising mail contributed more than \$686 million in increased sales to the U.S. economy, and 300,683 small businesses generated more than 20.8 billion pieces of mail. This volume helps to buttress the Postal Service against the decline in First Class postage revenue – revenue essential for postal jobs and universal mail service.

Mr. Chairman, I will conclude my testimony with where I began. The full potential and success of our national treasure – the Postal Service – relies on its continued ability to provide universal mail service to America, to use its available tools to weather economic squalls, to be granted access to the fiscal opportunities as other employers, and not to be strangled by ill-advised legislation. Thank you for the opportunity for NAPUS to present its views.

Mr. DAVIS. Thank you very much.
And we will go to Mr. Mapa.

STATEMENT OF CHARLES MAPA

Mr. MAPA. Chairman Davis, Ranking Member Marchant, and members of the subcommittee, wherever you are, good afternoon, still. My name is Charlie Mapa, and I am president of the National League of Postmasters. Thank you for inviting us to testify.

With your permission, I would like to briefly summarize my testimony, and ask that my full statement be accepted and entered into the record.

Founded in 1887, the National League of Postmasters is a management association representing the interests of tens of thousands of postmasters across the United States. Postmasters are a sizable portion of our membership, as are retired postmasters.

This afternoon, I would like to address three topics: the overall state of the Postal Service; the overall state of postmasters today; and the importance of rural post offices, including the critical obligation to provide universal service.

The Postal Service has been working for some time now to increase its efficiencies and trim costs. We fully support these efforts.

Managing costs, however, is not, by itself, going to be a sufficient means to ensure the financial viability of the Postal Service over the long term. If we are to continue to enjoy the wages and benefits that we all currently enjoy, the Postal Service is going to need to do things a bit differently in the future.

We have seen a few new developments on the competitive side of the house. We applaud these efforts and hope they expand. However, we have seen no attempts to innovate on the market-dominant side of the house, and we've seen no new NSAs. This is not good. It is good, however, that the Postmaster General mentioned in his testimony that is part of stage two.

Besides being one of the best ways to increase our profits and become a more sophisticated company, NSAs are the perfect vehicles to test-drive the new and creative products that the Postal Service needs to develop in order to prosper. New and creative ideas are wonderful things, but they are a dime a dozen until they are actually tried. That is, until they are actually tested. Testing, going out and actually trying new ideas, instead of just talking about them, is the key to the development of new and innovative products.

The Postal Service needs to go out and actually try new ideas without worrying whether they are going to work perfectly or not. That means making mistakes just to try new ideas. They usually don't work right the first time. Having new ideas not work the first time is part of being innovative.

A critical part of this effort will be the Postal Regulatory Commission having the breadth and depth of vision necessary to understand that the Postal Service must make mistakes in order to learn. Companies that take no risks and never make mistakes never innovate. We can't be afraid to take risks. We can't be afraid to make a mistake. We can't be afraid to learn.

Mr. Chairman, I would like to turn to the state of postmasters. We have previously come before this committee to express our con-

cern about the workload that is being thrust upon postmasters, that workload alluded to by my friend, Dale.

We understand that postmasters often need to put in more than 40 hours a week. But there comes a point, and we appear to have reached it, where often putting in more than 40 hours a week turns into a 6-day workweek and then some. If this doesn't stop, there is going to be massive burnout among postmasters, and the price that will be paid will be enormous.

We are now even being told that the new postal law requires that the Postal Service turn a profit, and that the only way to do so is to turn the job of postmaster into a 6-day, 48-hour-plus workweek.

Tellingly, this is an issue that was very important to postmasters during the 1950's and 1960's, and made it to legislation when Congress finally acted upon the matter and passed Public Law 89-116, which legally established a 5-day workweek for postmasters. That was more than 4 decades ago. That bill, as then-President Lyndon Baines Johnson said, "culminated"—and this is a quote from President Johnson—"15 years of efforts by the Nation's postmasters to secure what most people have enjoyed all along, a 5-day workweek."

I know of no other industry where top management is trying to turn back the clock on the 5-day workweek, and we wish the Postal Service would quit trying to do so. It's not good for postmasters, it's not good for the Postal Service, and it's not good for our country.

Finally, Mr. Chairman, I would like to address rural post offices and the universal service obligation. The glue that binds rural America together is our postal system and the local post offices.

However, the importance of rural post offices in rural America goes far beyond the mere delivery of mail. As I have described in my testimony, the importance of rural post offices goes to the essence of rural cohesion and to what makes up the notion of community. You can see this in the fact that once a town's post office disappears, the town often shrivels up and dies, for the cultural, political and economic function of a post office cannot be filled by having the rural carriers sell stamps from his or her car.

Finally, Mr. Chairman, the defining public policy that has guided the Postal Service from the early years has been the vision of a universal mail service. Equity demanded that the Government provide postal services to everyone, not just the privileged and well-to-do, including rural and urban areas that some perceive as being unprofitable.

The League strongly believes that we in the Postal Service should never lose that orientation. Universal mail service to every spot in the country every day is the right of every American citizen.

That concludes my remarks. I would be pleased to answer any questions that you might have.

[The prepared statement of Mr. Mapa follows:]

Testimony of Charles W. Mapa

President of the
National League of Postmasters

Before the Subcommittee on
Federal Workforce, Postal Service & the District of Columbia

Of the
Committee on Oversight and Government Reform

Of the
United States House of Representatives

May 8, 2008

Testimony of Charles W. Mapa,
National League of Postmasters

Before the Subcommittee on Federal Workforce
Postal Service & the District of Columbia
Of the House Committee on Oversight and Government Reform

May 8, 2008

Chairman Davis, Ranking Member Marchant, members of the Subcommittee, good afternoon. My name is Charles W. Mapa and I am President of the National League of Postmasters. I would like to thank the Subcommittee for inviting us to testify during your 2008 oversight hearings on the Postal Service. We are pleased to appear before you today.

Founded in 1887, the National League of Postmasters is a management association representing the interests of tens of thousands of postmasters across the United States. Although we represent postmasters from all across the country—from the very smallest to the very largest post offices—rural postmasters are a sizable portion of our membership, and we believe that we can speak for rural America with a certain amount of experience and expertise. The League speaks for thousands of retired postmasters as well.

This morning, Mr. Chairman, I will address three topics: the overall state of the Postal Service, the overall state of postmasters today, and the importance of post offices and the Postal Service to rural America, including the critical obligation to provide universal service. This last point is a particularly salient point in light of the study of the Universal Service Mandate that is being conducted by the Postal Regulatory Commission.

I. State of the Postal Service

The Postal Service has been working for some years now to increase its efficiencies and trim costs. The League is fully supportive of those efforts. Postmaster General Jack Potter should be commended for recognizing—years ago—that if the Postal Service is to remain a strong and healthy national institution, it must embrace new technology and more efficient ways of doing business. We need to ferret out innovative ideas that can help us improve service and lower costs. PMG Potter has worked wonders reducing the debt of the Postal Service and transforming it into a much more efficient entity than it was a mere decade ago. We applaud those efforts and stand ready, willing and able to help in any way we can.

Intelligent Mail Barcode

One of the most important areas for the Postal Service in its efforts to promote increased efficiency is the new Intelligent Mail Barcode (IMB). That barcode should, hopefully, replace the existing postnet barcode on all mail pieces within a few years. This will have three appreciable benefits for the Postal Service.

First, it will enable us to track every piece of mail in the system, thus not only meeting the needs of our customers, but also fulfilling the mandate of the Postal Accountability and Enhancement Act that we track and measure our performance. Second, having IMB data readily available to the Postal Service and to mailers should allow the Postal Service to work in close conjunction with mailers to quickly detect any problems in the delivery system and to finely hone its solutions. Third, the extra fields in the IMB will allow a new “smart” information system to evolve, and provide the Postal Service with an opportunity to increase the value of its services and to develop new products.

The success of the IMB is critical to the Postal Service, postmasters, and the nation's postal patrons, and I hope that its implementation goes well. I know that there have been serious rumblings from mailers about the costs and speed of the IMB implementation, and we trust the Postal Service and the Postal Regulatory Commission will provide sufficient incentives for mailers to move to the new system. Unless and until there is universal acceptance and adoption of the IMB, the new system will not reach the potential that we and the Postal Service desire for it. It is a critical matter, and thus so are the incentives.

We see that the Postal Service has already started to encourage the changeover to the IMB with the recent Bank of America NSA, and that it plans to create further incentives for the use of the IMB next year when it changes rates. We have heard some rumbling of individual challenges to such notions on the basis that they are not work-sharing discounts. We dismiss such grumbling as simply ill-conceived protestations against change. The creation of economic incentives for the rapid use and conversion to the IMB is a perfect example of the Postal Service new rate-setting flexibility in action and exactly the type of activity that the PAEA contemplates.

New Products and Innovation

Managing costs, however, is not by itself going to be a sufficient means to ensure the financial viability of the Postal Service over the long term. If the postmasters, supervisors, clerks and letter carriers are to continue to enjoy the wages and benefits that we all currently enjoy, the Postal Service is going to need to do things a bit differently in the future. While such changes can be traumatic, we as postmasters and representatives of postal management accept the fact that change is inevitable and pledge to work with the Postal Service to see that that change is developed and implemented in a positive and constructive fashion.

Some of that is going to require the Postal Service to take advantage of the provisions of the PAEA to develop new products and to enhance the Postal Service's and our economic situation. We have seen a few new developments on the competitive side of the house, with the introduction of the two new competitive products in January of this year—the new Priority Mail Large-sized Flat Rate Box and the guaranteed delivery of Express Mail on Sundays and holidays. We applaud those efforts and hope they not only continue, but expand.

However, we have seen *no* attempt to innovate on the market dominant side of the house, and no new NSAs. This is particularly disappointing and puzzling for two reasons.

First, NSAs were a prime driver of postal reform, as everyone knows. Tailoring our service offerings as well as our prices to the individual needs of our customers is the most efficient way to serve our customers, increase our profits, and become a much more sophisticated marketer and provider of services. Second, NSAs—and not necessarily big ones—are the perfect vehicles to test drive the new and creative concepts that we desperately need to develop in order to survive and prosper.

New and creative ideas are wonderful things, but they are a dime a dozen until they are actually tried, that is, until they are tested. Testing—going out and *actually trying new ideas and creative concepts* instead of just talking about them is the key to the development of new and innovative products. The Postal Service has not been very good about doing this in the past. We hope this will change in the future.

We trust that both the Postal Service and the Regulatory Commission understand that the fundamental principals of sound management and innovation require the Postal Service to try new things, and that trying new things means taking, balancing, and managing small risks, with the emphasis on the balancing and managing rather than the taking. Unless the Postal Service

actually goes out and tries new ideas—without worrying whether they are going to work perfectly or not—and actually finds out how and where the new ideas will work well and how and where they will not, we are not going to see the innovations we so desperately need. An extremely critical part of this effort will be the Postal Regulatory Commission having the breadth and depth of vision necessary to understand that the Postal Service must take these relatively insignificant risks on the market-dominant side if it wants to innovate, or it will slowly wither away and die. If the Postal Regulatory Commission won't allow the Postal Service to try new things without making any mistakes, it does not make any difference whether the Postal Service wants to innovate or not.

Put another way, without the Postal Service trying to innovate, and without the Regulatory Commission giving them to freedom to make mistakes in doing so, all the time and trouble that everyone took to pass Postal Reform, including the time of all the members of this subcommittee, will have been in vain. The company that takes no risks never innovates.

II. State of Postmasters

In the past we have come before this Committee to express our concern about the workload that is being thrust upon postmasters, and how sixty and seventy hour work weeks are becoming all too common, and indeed part of the regular job of a postmaster. As we have testified, as conscientious public servants, we understand that postmasters often need to put in more than 40 hours, considering the magnitude of our civic and social responsibilities. But there comes a point—and we appear to have reached it—where “often putting in more than 40 hours” turns into a 48-hour, six-day work week or more.

That is an injustice. While we realize that the Postal Service needs to become more efficient, if the Postal Service simply cuts down on carrier and clerk hours and transfers those hours to postmasters, expecting postmasters to perform two or three jobs instead of one, widespread burnout will occur. That is not how “becoming more efficient” works. Indeed, it is the very opposite.

I wish I could sit here today and report to you that the situation has improved, but it has not. While the officials at Headquarters with whom we deal have told us that they are trying to help us to ease the tension around the country that this issue had created, we have not seen much evidence of that with our postmasters in the field with whom I am in daily contact.

Indeed, with the worsening of the economy, I think it is fair to say that the problem is getting worse. We are now hearing the PAEA used as an excuse to mandate a six-day work week. The new law, we are now being told, “mandates that the Postal Service turn a profit” and since the only way to turn a profit is to turn the job of postmaster into a regular six-day, 48-hour plus-additional-time work week. That is just dead wrong.

Tellingly, this is an issue that was very important to postmasters during the 1950s and 1960s, when Congress finally acted upon the matter and passed Public Law 89-116 which legally established a five-day work week for postmasters. That was more than four decades ago. The signing of Public Law 89-116, as then President Lyndon B. Johnson said in his Rose Garden signing speech, culminated “15 years of effort by this Nation's postmasters to secure what most people have enjoyed all along--a 5-day week.” See remarks of President Lyndon B. Johnson, upon the signing of PL-89-116 in 1965. <http://www.presidency.ucsb.edu/ws/index.php?pid=27145>

Unless I have missed something, a five-day work week is still the law of the land and the norm for all businesses. I know of no other industry where top management is trying to turn back the clock on the five-day work week, and we wish the Postal Service would stop trying to do so.

In a somewhat related vein, one of the major issues in the postal area today is that of contracting out. While this is not an issue upon which the League has taken an official position, we do have certain strong philosophical concerns about the matter. Putting aside the question of possible union busting—which is not a good thing to do—there is a very real public policy question of whether we want to end up creating another class of postal-related personnel that receive little training, low pay, no medical insurance, and no benefits. What will that do to our society? How many more uninsured people would that throw into the mix? What will this do to the postal system? Also, what will this do to the image or the reality of the postal letter carriers?

While it is hard enough as it is in our modern system to measure up to that famous motto “Neither rain, nor snow, nor sleet, nor gloom of night stays these couriers from their appointed rounds,” a massive shift to contracting out would make that simply impossible. As the League has said before and as we reiterate now, the issue of contracting out is a very important issue that must be worked out between the Postal Service and the Unions. Until and unless the Unions and the Postal Service agree on some reasonable solution to this issue, the problem is not going to go away. It has already brought down morale in the field to a noticeable degree, and it will potentially bring it down even farther. Both the Postal Service and the Unions need to work together to come to some common understanding on this issue, for the long term, and for the good of everyone.

III. Rural America, Rural Post Offices and the Universal Service Obligation

As the Committee knows, I am from rural America where small towns are the norm. Indeed it is difficult to get smaller than Gold Run California, where I was appointed postmaster in 1986. Gold Run is a community of several hundred people, nestled in the foothills of the Sierra Nevadas, between Sacramento and Lake Tahoe.

Keeping rural American healthy is critical for the political, economic, and social well-being of America. The glue that binds rural America together is our postal system and the local post offices. Rural America has not gone out of style. Nor is it about to. Communication by paper has not disappeared from our system. Nor is it about to. If we want to keep rural America strong, and by extension to keep America strong, we need to keep our rural postal system strong.

Rural Post Offices.

The role rural post offices play in rural America goes far beyond the mere delivery of mail. It is a role that goes to the essence of rural cohesion and to what makes up the notion of "community." The rural post office is an institution that literally binds rural America together, culturally, socially, politically, and economically. It, along with the rural newspaper, set the framework within which rural communities operate. To interfere with either is to interfere with the fundamental dynamics of rural communities and to risk the destruction of them.

It is in the rural post offices that community members encounters one another each and every day, greet each other every morning, and daily reinforce their ties of community. Rural Post Offices serve as gathering places where social news is exchanged and political issues are discussed, often with some heat. It is in the rural post offices that political questions are addressed, sides argued, and opinions formed. It is where friendships are made and maintained,

and scout and scout masters scouted and recruited. It is the forum where municipal and county leaders are formed, the forum where their criteria for office discussed and debated, and the forum where the decisions that will be carried out at the ballot box are made. It is the one place where local leaders can go and take the pulse of their community, and find out just what are the burning issues of the day. Local post offices also provide space for community bulletin boards and post federal notices. They are shelter where children can wait for the school bus.

None of these functions are functions that can be filled by having rural letter carriers sell stamps from their cars.

Moreover, in some rural areas, postmasters play a very important social role that has nothing to do with the postal system or postal revenues. These are roles whose value cannot really be measured in dollars, and it is in part for these roles that the Universal Service mandate exists and the private express statutes remain. For instance, many rural Postmasters help customers with low literacy levels in a variety of ways, providing assistance in writing checks and money orders to pay bills. Many rural Postmasters address envelopes for their patrons, as well as read and explain mail to them. As such, they perform a valuable social function and have done so for centuries. In a related vein, state and federal forms are available on site, and rural Postmasters often help local citizens with these. Without rural postmasters, this social need would not be met. The Rural Post Office is an icon of rural America, and neither Congress nor the Postal Service should tamper with it. This is because, as the Committee knows well, once a rural town's post office disappears, the town often shrivels up and dies.

Finally, we would once again like to reiterate that the cost of keeping rural post offices open is *de minimus*. As we pointed out many times, the cost of the 10,000 smallest post offices—about one-third of all post offices in the United States—is less than one percent (1%) of

the total budget of the Postal Service. That is a small price to pay for the social, cultural, political, and economic stability that America has for so long enjoyed in rural America.¹

The Universal Service Obligation

As the League stated in its appearance before the President's Commission on the Commission several years ago, the defining public policy that has guided and governed the Postal Service from the early years of our history to the present has been the vision of a universal mail service. That vision was founded on the notion of equal access to postal services that would connect the American people for generations to come. Equality demanded that the Post Office Department set at least one uniform rate so that a single stamp could get a letter from any place in America to its destination anywhere in America—whether around the block or across the country. Equality demanded that the government provide postal services to everyone, not just the privileged and well-to-do, including rural and urban areas that some perceive as being unprofitable. The League strongly believes that we in the Postal Service should never lose that orientation. Mail service every day to every address and every resident in the country is a fundamental right of being an American.

It is important to state for the record that while we understand that developments in the world of electronic communication have altered the dynamics of mail, it really hasn't diminished

¹ There are some that say that post offices that operate at a loss or do not pay their way should be closed. The question of post offices operating at a loss or paying their own way is not an easy question to address. This is because the system the Postal Services uses to determine whether a post office is "making a profit" keys on the amount of revenue accepted at that post office, *regardless of where the deliveries are to be completed*. Thus, the postage for a hypothetical mailing of 15,000 is all credited to the post office *where the mailing is entered* and none of the revenue to the post offices *where the actual pieces are delivered*.

That situation creates an enormous disconnect for most of the costs of delivering those 15,000 pieces are borne by the post offices of delivery (to which no revenue is credited) and not the post office of origin (to which all the revenue is credited). Thus, the system inherently skews the relationship of revenue and costs among the nation's post offices and should call into question the very notion of a post office "operating" at a loss.

the importance of the postal system to rural America, nor the role of the Postal Service, and no one has suggested anything to the contrary. The Postal Service still is the economic backbone of this country and critical to the social, cultural, political, and economic well-being of rural America and is going to remain so for the foreseeable future. Any change in its Universal Service Obligation would negatively affect that function.

Some economists would suggest that universal service and the private express statutes have outlived their usefulness. They are, no doubt, the same economists that argued for the deregulation of the airline industry and for the deregulation of electricity. Speaking as a president of a national organization who must fly constantly, and as a resident of California, I surely do not want the Postal Service to devolve to the level of today's airlines, nor to the level of the electric companies in California, where—just as in certain third-world countries—rolling blackouts were quite common for a while. See e.g., <http://blackoutstatus.sdge.com/reo/> ; <http://www.pbs.org/wgbh/pages/frontline/shows/blackout/california/timeline.html> ; *see also* www.redcross.org/static/file_cont1359_lang0_609.pdf.

Thank you for considering our views, and I would be pleased to answer any questions that you might have.

Mr. DAVIS. Thank you very much.
And we will go to Mr. Keating.

STATEMENT OF TED KEATING

Mr. KEATING. Chairman Davis, Congressman McHugh, I'm grateful for the opportunity to appear before you today.

This year marks the 100th anniversary of the founding of the National Association of Postal Supervisors. My written testimony will detail some of the challenges faced over those 100 years and the obstacles that were overcome with the help of Congress. But in the interest of time, I will move directly to the issues we face today, because those challenges continue.

While we have made great strides in improving the service and efficiency of the Nation's mail system over the past century, new and unprecedented challenges remain before us. As the economic focus of this hearing suggests, the preservation of the financial strength is the paramount challenge to the future of the Postal Service.

The triple threat of declining mail volume, increased service demands and delivery points, and a weakened economy have not provided a healthy base for the launch of the postal reform law over the past year.

Weakened economic conditions have disproportionately affected postal revenues. The financial, credit and housing industries, key users of the mail, have slackened in their mail usage. And retailers have reduced their mailings of catalogs and advertising mail.

These conditions underscore my belief, as I noted in my testimony to the subcommittee last year, that the sweeping reforms of the new postal reform law and the pressures of the inflation-adjusted cap upon price increases in the market-dominant products will require the Postal Service to become more entrepreneurial, accountable and transparent in the conduct of its business operations.

The Postal Regulatory Commission similarly needs to assure that the Postal Service retains the flexibility to operate in a manner that preserves affordable and universal service. And the Congress needs to exercise oversight to monitor and assess whether the objectives of the postal reform law are being achieved while remaining ready to modify the terms of the law as developments may require.

The new law affords the Postal Service tremendous opportunities to benefit current users of the mail and to attract new customers. The Postal Service needs to explore every opportunity to pursue additional revenue through new products and services. This includes not only the introduction of new and innovative mail products, but also provide greater accessibility to commercial services within the network of more than 30,000 post offices.

For example, post office lobbies are underutilized. They should afford access to bank ATM services and other commercial products. The availability of ATM in a small post office in rural areas will be well-received in many communities.

Similarly, the last mile of a USPS delivery provides untested opportunities for expanded courier and delivery services by USPS carriers.

The Postal Regulatory Commission has embarked upon and completed an impressive schedule of regulatory initiatives over the past year, including rules for the rate-setting process for market-dominant products and service standards for the most postal products.

It is now engaged in a study, mandated by the Postal Accountability Enhancement Act, to report to the President and Congress by December 2008 on universal postal service and the postal monopoly in the United States, including the monopoly on the delivery of mail and access to mailboxes.

Universal service encompasses postal services and costs that would not necessarily be provided with the private sector controlling and administering the American postal system. That unacceptable outcome, the deprivation of reasonable access in the collection and delivery of the mail to some Americans, is why universal service obligation has become a core component underlying the mission of the Postal Service.

That is also why the mailbox monopoly, the unrestricted right to facilitate the collection and delivery of letters through exclusive use of the customer's mailbox, has become a twin policy requirement to assure economic viability of the universal service.

The PRC's responsibility to study the future of universal service obligation in a report to the President and Congress comes at a time when declining mail volume and increased service demands for new households and businesses may strain the economic viability of the universal service as we have come to know it.

This prompted the PRC to declare last month its intent, in preparing the report, to focus on the universal service obligation as characterized by its geographic scope: product offerings, access to postal facilities, delivery frequency rates and affordability, and the quality of service.

The identification of these study areas means that the PRC study will likely involve examination of a number of controversial proposals: determination of unprofitable delivery routes, the closing of small post offices, abandonment of the Alaska Air subsidy, the realignment of producing and distribution networks, and the reduction in the number of stops in delivery networks. These initiatives arguably would reduce Postal Service capital and labor costs, but also threaten the ubiquity and accessibility of America's postal system.

To prepare its report, the PRC has contracted with a consultant team from George Mason University to receive significant assistance in acquiring the underlying research, distilling public input, and drafting the report due to the President and Congress.

The PRC's scheme for the consultant's drafting of this report envisions the GMU team playing a dominant role in the drafting of the report. The PRC's request for proposals even envisions the PRC's possible adoption of much of the consultant's draft report as the final report of the PRC.

Given the significant role of the consultant team and its draft report in shaping the ultimate views of the PRC on the universal service obligation, we are concerned that the PRC has not provided for adequate transparency and the opportunity for meaningful public review and comment. We believe the failure to provide for public

comment on the consultant's draft report represents a serious and perhaps fatal flaw in the PRC's study.

And my time is running out. Because this has been touched upon already, let me go right to something else that I wanted to finish my report with. And I'll be very quick.

Last year, I brought to your attention the existence of new Postal Service rules that deny employment protections to military veterans in the management or supervisory positions in the course of downsizing action. Since then, these rules have remained in place, and the situation has remained unchanged.

These rules allow the Postal Service to involuntarily transfer supervisors to locations far from their homes without the right of appeal, despite their veterans preference status, in the course of downsizing or consolidation of a post office. This is clearly contrary to the spirit of Government-wide personnel law and rules and repugnant to the sacrifices that veterans have made to this country.

In response to the Postal Service's actions, Representative Stephanie Herseth Sandlin has introduced the Veterans Reassignment Protections Act, H.R. 728, which prohibits Federal departments and agencies, including the Postal Service, from involuntary transferring of a federally employed military veteran to another geographic location without the benefit of veterans protection and reduction-in-force rules which guarantee the right of appeal.

This legislation has been referred to the Committee on Oversight and Government Reform, and I urge the members of this subcommittee to support the consideration in approval of this measure.

While no veterans in supervisory positions have yet been involuntary reassigned, as the Postmaster General testified to earlier, this is only because of the delay in the Postal Service's plans to undertake what could potentially become significant realignments in processing and distribution networks. When the time comes and those realignment initiatives do in fact begin, veterans preference-eligible employees clearly will suffer harm if the Postal Service repositioning rules are allowed to stand.

There is no reason for Congress to wait for that harm to occur. The rights and protections of our Nation's veterans, in light of their continuing sacrifice in Iraq, Afghanistan and other dangerous lands, should never be compromised.

Thank you for the opportunity to present these views on behalf of the National Association of Postal Supervisors, and I'll take any questions you may ask.

And I apologize if I ran over.

[The prepared statement of Mr. Keating follows:]



NATIONAL ASSOCIATION OF POSTAL SUPERVISORS

National Headquarters
1727 KING STREET, SUITE 400
ALEXANDRIA, VA 22314-2753
(703) 836-9660

**STATEMENT OF
TED KEATING, PRESIDENT
NATIONAL ASSOCIATION OF POSTAL SUPERVISORS**

**ON
THE ECONOMICS OF UNIVERSAL MAIL POST-PAEA**

**SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL
SERVICE, AND THE DISTRICT OF COLUMBIA**

**COMMITTEE ON OVERSIGHT AND
GOVERNMENT REFORM**

UNITED STATES HOUSE OF REPRESENTATIVES

MAY 8, 2008

Representing supervisors, managers and postmasters in the United States Postal Service



Chairman Davis, Ranking Member Marchant and Members of the Subcommittee:

I am grateful for the opportunity to appear on behalf of the 33,000 postal supervisors, managers and postmasters who belong to the National Association of Postal Supervisors.

This year marks the 100th anniversary of the National Association of Postal Supervisors. On September 7, 1908, 50 postal supervisors from post offices in 13 states met in Louisville, Kentucky, to establish an association, first called the National Association of Supervisory Post Office Employees, that was dedicated to the welfare of postal supervisors and the improvement of the United States Post Office Department.

In 1908, poor working conditions and an unfair salary system were among the challenges that faced the founders of our association, all of whom risked their jobs to participate in these early organizational activities. At that time, no standard eight-hour workday or forty-hour workweek existed for postal workers. The workday began at a specified time, but ended only when all mail on hand had been processed. Saturday and Sunday were regular workdays, and there was no overtime or compensatory time. The sick leave benefit was years away, and upon completion of a "career" in the Post Office Department, there was no retirement annuity.

Moreover, a gag order was imposed on the efforts of any postal employee who attempted to redress these conditions. By order of the

Postmaster General in 1895, and through subsequent executive orders in 1902, 1906 and 1909, all postal employees faced immediate dismissal for lobbying any member of Congress on pay or other postal issues, even if they lobbied on their own personal time. In addition, no cooperative relationship existed between postal supervisors in the field and postal managers in Washington, and the phrase "management team" had not yet been invented.

That is why the progressive founders of the National Association of Postal Supervisors a century ago set the organization on a remarkable course, as proclaimed in the NAPS Constitution, "to promote, through appropriate and effective action, the welfare of its members and to cooperate with the United States Postal Service in a continuing effort to improve service, to raise the standard of efficiency and to widen the field of opportunity for supervisory employees who make the post office their life work."

Since that time, with the continued help of Congress and alliances with the other postal and federal employee groups, NAPS has helped to achieve a wide number of improvements in the working conditions and compensation of postal supervisors and all postal and federal employees. The focus of the Association has grown to embrace the interests of all managers and supervisors throughout the United States Postal Service, not only in mail processing and delivery, but in all functional units, including customer service, marketing, human resources, training, corporate relations, law enforcement, and health and safety. As managers and supervisors have moved on to become postmasters, many have chosen to retain their membership in NAPS.

“Unity through strength” has exemplified not only the character of the managerial and supervisory ranks, but the ranks of all postal employees, and the progress that the postal management associations and the unions together have achieved.

The Preservation of USPS Financial Strength

Today the challenges continue. While we have made great strides in improving the service and efficiency of the nation’s mail system over the past century, new and unprecedented challenges remain before us. As the economic focus of this hearing suggests, the preservation of the financial strength is the paramount challenge to the future of the Postal Service. The triple-threat of declining mail volume, increased service demands and delivery points, and a weakening economy have not provided a healthy base for the launch of the postal reform law over the past year. Weakened economic conditions have disproportionately affected postal revenues. The financial, credit and housing industries – key users of the mail – have slackened in their mail usage, and retailers have reduced their mailings of catalogs and advertising mail.

These conditions underscore my belief, as I noted in my testimony to this Subcommittee last year, that the sweeping reforms of the new postal reform law and the pressures of the inflation-adjusted cap upon price increases in market-dominant products will require the Postal Service to become more entrepreneurial, accountable and transparent in the conduct of its business operations. The Postal Regulatory Commission similarly needs to assure that the Postal Service retains the flexibility to operate in a manner that preserves affordable

and universal service. And the Congress needs to exercise oversight to monitor and assess whether the objectives of the postal reform law are being achieved, while remaining ready to modify the terms of the law as developments may require.

The Need for Additional Revenue to Assure USPS Viability

The new law affords the Postal Service tremendous opportunities to benefit current users of the mail and to attract new customers. The Postal Service needs to explore every opportunity to pursue additional revenue through new products and services. This includes not only the introduction of new and innovative mail products, but also provide greater accessibility to commercial services within the network of more than 30,000 post offices. For example, post office lobbies are underutilized; they should afford access to bank ATM services and other commercial products. The availability of ATM service in small post offices in rural areas would be well-received in many communities. Similarly, the last mile of USPS delivery service provides untested opportunities for expanded courier and delivery services by USPS carriers.

In addition to USPS efforts to grow new revenue, the Congress needs to assure that the Postal Service receives every dollar to which it is entitled. For example, the Revenue Forgone Reform Act of 1993 provides for a \$29 million annual governmental payment over 42 years to the Postal Service to pay off a \$1.2 billion debt Congress created by mandating preferred postage rates to nonprofits and others in the early 1990s. Too often Congress has sought to avoid payment of this

obligation through budget chicanery to the detriment of the Postal Service. The revenue forgone payment should never be held hostage and should be automatically funded by Congress every year in recognition of the prior pledge that Congress has made.

On another revenue-generating front, a request by the Postal Service for payment of the Medicare Part D prescription drug subsidy, projected to save postal customers at least \$250 million annually, has been resisted by the Bush Administration since 2005. While private sector competitors of the Postal Service may qualify for subsidies that offset the cost of prescription drug coverage they provide to their retirees, the Postal Service has been barred from receipt of the subsidy by the Office of Personnel Management. We trust that the next Administration will take a more enlightened attitude toward the payment of the prescription drug subsidy to the Postal Service, recognizing the need to assure a level playing field.

The expansion of voting by mail not only will broaden citizen participation in election processes at the local, state and federal levels, it will generate additional revenue for the Postal Service. At the same time, we will continue to urge state lawmakers to continue to demonstrate continued wisdom in regarding Do Not Mail legislative proposals as misguided and unnecessary, in light of their significant negative impact upon postal income and the viability of opt-out mechanisms that already are available to households to diminish their receipt of advertising mail.

The PRC Report on the Universal Service Obligation

The Postal Regulatory Commission has embarked upon and completed an impressive schedule of regulatory initiatives over the past year, including rules for the rate-setting process for market-dominant products and service standards for most postal products. It is now engaged in a study, mandated by the Postal Accountability and Enhancement Act, to report to the President and Congress by December, 2008 on "universal postal service and the postal monopoly in the United States ... including the monopoly on the delivery of mail and on access to mailboxes."

Universal service is a term commonly used to refer to postal service to all parts of the country, the notion of service to anyone anywhere throughout the 50 states and the territories. It has evolved over time in policy and operational terms to connote the ability to mail a letter from anywhere to anyone within the United States at a relatively uniform price. Widespread, reliable geographic coverage at a consistent cost, from Hawaii to Maine, has become the hallmark of America's postal system.

Universal service encompasses postal services and costs that would not necessarily be provided were the private sector controlling and administering the American postal system. That unacceptable outcome – the deprivation of reasonable access in the collection and delivery of the mail to some Americans – is why the universal service obligation has become a core component underlying the mission of the Postal Service. That is also why the mailbox monopoly -- the

unrestricted right to facilitate the collection and delivery of letters through exclusive use of the customer's mailbox -- has become a twin policy requirement to assure economic viability of universal service.

The PRC's responsibility to study the future of the universal service obligation in a report to the President and the Congress comes at a time when declining mail volume and increased service demands to new households and businesses may strain the economic viability of universal service as we have come to know it. This prompted the PRC to declare last month its intent, in preparing the report, to focus on the universal service obligation, as characterized by its geographic scope, product offerings, access to postal facilities, delivery frequency, rates and affordability, and quality of service. (See Postal Regulatory Commission Notice regarding the Universal Service Obligation, Federal Register, April 30, 2008). The identification of these study areas means that the PRC's study will likely involve examination of a number of controversial proposals: the termination of unprofitable delivery routes, the closing of small post offices, abandonment of the Alaska air subsidy, the realignment of the processing and distribution network, reduction in the numbers of stops in the delivery network, cutbacks in the number of delivery days, and other measures. These initiatives arguably would reduce Postal Service capital and labor costs, but also threaten the ubiquity and accessibility of America's postal system.

To prepare its report, the PRC has contracted with a consultant team from George Mason University to receive significant assistance in acquiring the underlying research, distilling public input, and drafting the report due to the President and Congress. The PRC's scheme for the

consultant's drafting of the report envisions the GMU team playing a dominant role in the drafting of the report. The PRC's request for proposals even envisions the PRC's possible adoption of the much of consultant's draft report as the final report of the PRC.

Given the significant role of the consultant team and its draft report in shaping the ultimate views of the PRC on the universal service obligation, we are concerned that the PRC has not provided for adequate transparency and the opportunity of meaningful public review and comment. We believe the failure to provide for public comment on the consultant's draft report represents a serious, perhaps fatal, flaw in the PRC's study process. Section 702(c) of the PAEA requires the PRC to "consult with the Postal Service and other Federal agencies, users of the mails, enterprises in the private sector engaged in the delivery of the mail, and the general public" in the preparation of the PRC's report. Adequate and meaningful consultation by the PRC with these postal stakeholders can result only after the findings and recommendations of the consultant's report have been made available to the public and postal stakeholders for study and review. Similarly, the PRC's scheduling of the three upcoming public hearings later this month and in June is premature. Constructive input by the general public to the PRC will be better generated after the findings and recommendations of the consultant's report are revealed and studied.

We urge this Subcommittee to encourage the Postal Regulatory Commission to review its study process and adopt a process that is imbued with greater transparency and dialogue, by sharing the

consultant's findings and recommendations and by providing the opportunity for public review comment on the consultant's draft report.

Preventing the Denial of Employment Protections to Veterans

Last year I brought to your attention the existence of new Postal Service rules that deny employment protections to military veterans in management or supervisory positions in the course of downsizing actions. Since then these rules have remained in place, and the situation has remain unchanged. These rules will allow the Postal Service to involuntarily transfer supervisors or other management employees to locations far from their homes, without the right of appeal, despite their veterans' preference status, in the course of the closing or consolidation of a post office or other facility at which the veteran is employed. This is clearly contrary to the spirit of government-wide personnel law and rules, and repugnant to the sacrifices that veterans have made to their country.

In response to the Postal Service actions, Rep. Stephanie Herseth-Sandlin (D-SD) has introduced the Veterans Reassignment Protection Act (H.R. 728), which prohibits federal departments and agencies, including the Postal Service, from involuntarily transferring a federally-employed military veteran to another geographic location without the benefit of veterans' protection and reduction-in-force rules, which guarantee the right of appeal. This legislation has been referred to the Committee on Oversight and Government Reform, and I urge the Members of this Subcommittee to support the consideration and approval of this measure.

While no veterans in supervisory or management positions have yet been involuntarily transferred in downsizing actions by the Postal Service, this is only because of the delay in the Postal Service's plans to undertake what could ultimately become potentially significant realignments in its processing and distribution network. When the time comes and those realignment initiatives do in fact begin, veterans preference-eligible employees clearly will suffer harm if the Postal Service repositioning rules are allowed to stand. There is no reason for Congress to wait for that harm to occur. The rights and protections of our nation's veterans, in light of their continuing sacrifice in Iraq, Afghanistan and other dangerous lands, should never be compromised.

Thank you for the opportunity to present these views. On behalf of the National Association of Postal Supervisors, I look forward to continuing to work with the Subcommittee in its oversight of the Postal Service and its mission. I am available to answer any questions you may have.

Mr. DAVIS. Let me thank all of you for your testimony.

Let me ask each one of you, if you would, to respond. There is obviously a great deal of conversation continuing to take place about the economic viability of the Postal Service and making projections for perhaps even a decade.

My question is, what do you see the Postal Service doing now, or what can it do, to enhance economic viability, making use of the Postal Reform Act?

Mr. GOFF. I guess I will start first, Mr. Chairman. I think we have seen that in some of the testimony, or heard that today in some of the testimony, that the Postal Service, on the competitive products, we have gone out and started doing some things to raise different revenue.

I know in meetings with the Postmaster General and other members of the postal headquarters that they have kept us involved in what is happening with the status of the Postal Service as far as volume and revenue, and I can tell you, and I think I know these two gentlemen next to me as well, that we are out there telling our employees that because of the law and because of the situation that we are in, the economic times, is that we have to go out and generate revenue.

As I said in my testimony, in the small towns and rural areas, there is plenty out there that we can go to, the mom-and-pop grocery stores, the people that depend on the Postal Service to bond their families together and to grow their businesses in the small towns; that we can go out and help those people with some type of mail service, with discounts or whatever, to grow the revenue for the Postal Service.

Mr. MAPA. I agree with Dale on all of those issues, and I think what the Postal Service really needs to do beyond that, is to look at what we have. We have the largest network, the largest infrastructure in the country, and the Postal Service has to sit back and ask itself, are we making the best use of that? I would venture to say that we are not. I think there are a lot of things we could do.

I know that Dale and I both, and probably Ted, when we go out to talk to our members, we tell them, look; look for opportunities. The opportunities are there. Find a way to make use of that infrastructure now as much as you can.

But I think the Postal Service really has to sit back and take a look at the value that it has, something that nobody else has, and try to figure out ways to maximize that infrastructure.

Mr. KEATING. While I don't disagree with my two colleagues, I take a look at the long-term picture of the Postal Service. I spent my postal career mainly, 40 years, in finance, and from a financial perspective I just see that we are on a collision course; that the revenue, even generating new avenues of revenue, is not going to be enough to sustain the Postal Service as we know it. And I think ultimately this is going to end up back in Congress in the years ahead, whether it is 2 years, 5 years or 10 years, as an issue, what do we do with the Postal Service once again.

I just don't think that to sustain the Postal Service, as we know, I don't think we have the financial means to do it.

Mr. DAVIS. Well, let me ask you. How important do we think that the concept of universal service is to the Postal Service and its operations?

Mr. GOFF. Mr. Chairman, just as the Postmaster General said, that is our trademark, universal service. As I said in my testimony, I was a witness to that during Hurricane Katrina, and being a survivor of that, just what the Postal Service did to get the communities back together and divine them with the rest of the country after that catastrophe happened.

Without the universal service, and I don't want to forget about Chicago and places like that, but we have a vast area of this country that is very rural, and I know Congressman McHugh comes from a small town there in New York. You know, the Postal Service, to have that universal service, whether they are making a profit or not, is very important to those communities. Without the universal service, we will see many of these communities possibly go on to eBay and sell their town because they are not going to survive anymore, and people are going to move. So, it is very important that we keep that universal service; not only that, but the monopoly that the Postal Service has.

Mr. MAPA. If we don't maintain universal services as the U.S. Postal Service, then we will become what we have been talking against for years, and that would be the privatizers. We will do the things that we were afraid they would do. We would go to the markets that we think made the most money and where we can be profitable. We would concentrate on those markets and cut the rest out. If that is what we want to do, then we might be smart just to turn it over to the people that really know how to do it.

I would rather see that we maintain the private express statutes. I would rather see that we maintain universal service. A post office to a town means much more than having a place to go pick up a letter or buy a stamp. It helps to form the fabric of our country.

I don't have the answer on how to get it done, but if we want to give up on it now, then we will never find a solution.

Mr. KEATING. I agree completely. The concept of—despite what the postal reform says, the concept of the Postal Service making money, quite frankly, and in my personal opinion, is not realistic. I get a question from my membership often as to what is our future? What is going to happen when the money runs out? And my usual response is, well, it has been quite a while since Amtrak made money, but the trains are still running, and I think that is a comparable future that we see down the road.

Mr. DAVIS. Well, before I go to Mr. McHugh, let me just ask you, where is Covington, LA?

Mr. GOFF. Where is it? It is 30 miles north of New Orleans, across that big pond, Lake Pontchartrain.

Mr. DAVIS. That is a great lake, I will tell you. The most frightening experience I ever had in my life, I was there 1 year when the water was up. I went across that lake with the water up on the lake and with sandbags, and I was so delighted to get to the other side.

Mr. McHugh.

Mr. MCHUGH. We are delighted you made it, too, Mr. Chairman.

Let me apologize to everybody for not being here earlier. They had me and 20 of my colleagues locked up as part of the Intelligence Committee markup, and it precluded my being here for the other two panels. It is good to be here even at this late hour and see so many familiar faces who have really been so instrumental in making the Postal Service the great success that it has been and remains to this day.

I want to commend you, Mr. Chairman, as always, for devoting this subcommittee's attention to the oversight and to the hopefully tender mercies of the House of Representatives in trying to be more supportive in what I happen to believe is an invaluable national mission, and that is the preservation of the Postal Service. That means in my part of the world, as Dale said, universal service to places like Pierpont Manor, NY, and all points in between.

I listened to all of your comments very carefully. The concern that has been expressed about the study on universal service is understandable. I was flipping through Myke Reid's testimony, and he is pretty explicit about some of the specific concerns that he has as to the process.

I can only speak for myself at this point. Certainly it was always our intention that the PRC be the author of the report, and the underlying intent is to better define and, in my judgment, hopefully better preserve the guarantee of universal service. But there is always uncertainty. I listened to President Keating's comments about his concern in lack of input.

Ted, I just want to ask you, is that pertaining to the George Mason piece of it, or are you concerned about public input across the board? I know the PRC is having a variety of public hearings.

Mr. KEATING. I think those public hearings, quite frankly, are premature at this point. I think the hearings should take place after the consultants come back with their recommendations.

Mr. MCHUGH. To provide—and I am going to state the obvious—to provide folks like yourselves with the opportunity to comment on the study piece of that?

Mr. KEATING. That is correct.

Mr. MCHUGH. That is an interesting perspective.

Any other specific concerns about the actual PRC process, including the George Mason study, that you can share with us? I think it is important for the PRC to hear about these so that where it is at least possible, some adjustments in the way ahead can be made.

Mr. KEATING. You refer to Myke Reid's testimony. I had a chance to read that testimony earlier, and I agree completely with everything he said.

Mr. GOFF. Congressman, if I could answer that, the PRC, since it has been in existence under the new law, I know so far they have involved many of us in working with them and giving input to their committee. And I would hope, and I have that confidence in them, even with this, irregardless of the study being done, that they will continue to come to us.

They have done a great job as far as what they have put out, as far as their reports. They have been ahead of schedule. But I hope that they take their time on a universal service study and go to everybody, all of the stakeholders that are involved, and get their

opinion input. And I have that confidence in the committee, watching what they have done so far with their work.

Mr. MAPA. I would have to agree with Dale. I know that the National League of Postmasters has a very good working relationship with the PRC; however, I guess maybe I will have to voice the same concern. A lot is going on over there regarding universal service, but I think an effort should be made to invite each of our groups to at least provide some input to that process so that our concerns are going to be heard.

Who else would be more qualified to talk about post offices in small towns than the two presidents of the postmaster organizations? If we are not included in that somehow, then the process is missing a very important piece. And if you don't invite the president of the supervisors to come talk, then the process isn't going to be as all-encompassing as it needs to be.

Mr. MCHUGH. Well, I thank you all for that. We have folks from the PRC who are monitoring this hearing, and perhaps they will take your comments back, and we will see some increased opportunities for input. I would certainly hope that happens.

Mr. Chairman, I see we are under the 5-minute rule, and my time is up. I can ask another question, if I can.

Mr. DAVIS. Go ahead.

Mr. MCHUGH. All right. I had a lot of folks come who are concerned about the Postal Service's future, as all of you are, who have come and met with me on a number of occasions about their focus on and concern with the potential for so-called "do not mail" legislation, particularly at the State level. Based on your presence throughout all of those thousands of post offices across the country, I am just curious if you would have any comment on how you feel "do-not-mail" legislation would affect the ability of the Postal Service to maintain its revenue streams, and also if you have heard anything that we should be aware of here at the Federal level about movement in that regard?

I know this came up in the Postmaster General's comments, but you folks, as you know, are out on the ground. I am just curious of your perspective.

Mr. GOFF. Congressman, we are not aware of anything at the Federal level at this time; however, there has been that legislation in several States last year, and it has already been proposed this year.

I can tell you, we have been very aggressive. We have had postmasters from those individual States go before the committees that were having hearings on that issue to give testimony, and I am proud to say that each time somebody has gone to testify, that legislation has been pulled.

So, it would be devastating, as I said earlier. It is a big industry out there of people that are involved, \$680 million in sales, 300,000 small businesses that generate 20 billion pieces of mail. If that happens, what would happen to us for sure? Amtrak—you wouldn't have enough money to support the Postal Service if those people would go away.

Back when the Postal Service was first formed back in the 1970's, for those who have been around a long time, we survived that, and we became stronger as a Postal Service. And I am con-

fidant that even with the new law that was passed in 2006, that we will become stronger as a Postal Service, too. But “do not mail” would just devastate us.

Mr. MAPA. I agree with Dale. “Do not mail” is a horrible thing. I have actually been to eight branch conventions so far, and I talk to postmasters at every one of them, and some of them tell me they have had decreases as much as 30 percent in their volumes. I had one postmaster tell me that his volumes had gone down 60 percent. I would say, OK, that is a bad thing. Take a look at what “do not mail” will do to your mail volumes. If you think your tubs are half full now, they will be a quarter full. And if we are losing money the way we are now with a bad economy, throw in a little bit of “do not mail,” and the Postal Service will likely go under.

We need to be able to communicate to the American public that mail is not invasive. You go to the post office and you pick up your mail. Before you leave the post office, you can already do what all good Americans do, and that is recycle. Compare that to telephoning somebody at dinnertime to sell them a windshield. There are two big differences between those.

The other thing is we need to let people know why people do advertising like that. We watch 10 or 15 minutes of television, 5 minutes of it is punctuated by commercials. So there is a reason for it, and we need to be able to convince people that mail is a good thing, and it is not an invasive thing that is going to bother America.

Mr. KEATING. Like my two colleagues, we have been very active at the State level. We have legislative representatives in every State in the country. There has been a lot of State activity. But when we sent people to those hearings and they hear the full story from us, we have been able to beat back that legislation. So it is something we have to keep our eye on, and we certainly will.

Mr. McHUGH. Well, I had a strong suspicion you were actively involved. Let me commend you for that grassroots approach. I spent four terms in the State legislature back in New York, and I know when representatives from communities throughout the State used to come and talk to me about any piece of legislation, in this case, of course, “do not mail,” it holds tremendous weight. And our ability to bring a sense of reason and the postal perspective to these deliberations as they occur are greatly enhanced by your direct efforts. So, thank you for that on behalf of every American who receives mail, because do-not-mail legislation could take us a long way down the path to, in fact, of no mail, or at least no viable Postal Service. I am deeply concerned about that. So thank you.

Mr. Chairman, again, with words of thanks to you and the subcommittee for your efforts here this day and every day on behalf of the U.S. Postal Service, I want to yield back.

Mr. DAVIS. Thank you very much, Mr. McHugh.

We certainly want all of you to know, and especially you, Mr. Goff, that we are concerned about those small communities like Covington and the town that Mr. McHugh lives in and all of rural America, as well as urban America. I want to thank you gentleman for being here and for your testimony.

Also, it gives me a chance to mention that one of the long-time members of the National Association of Postal Supervisors, who was president of the group in Chicago, Elizabeth Fleming, her funeral was today. So I will just kind of gavel this meeting adjourned in memory of her, because she was the person who always kept me abreast of what was happening.

Mr. KEATING. Mr. Chairman, thank you very much for that. I appreciate it.

Mr. DAVIS. All right. Well, thank you all so much. This meeting is adjourned.

[Whereupon, at 5:36 p.m., the subcommittee was adjourned.]

[Additional information submitted for the hearing record follows:]

**Questions for the Record
Submitted to Dan Blair
Chairman, Postal Regulatory Commission
From Danny K. Davis
Chairman, Subcommittee on the
Federal Workforce, Postal Service, and the District Columbia
May 8, 2008**

1. Mr. Blair, it is my understanding that in developing your report to Congress on Universal Postal Service and the Postal Monopoly, you will derive input from a variety of sources. One of these sources is a team at George Mason University who is preparing a report. Some of whose members involved in this study have previously expressed opinions that do not support Universal Service. It is also noted that the PRC will be receiving comments from the public and other interested parties, and the views of participants in three field hearings.

A. Will the George Mason University study be released to the public immediately following its completion?

There seems to be a misunderstanding as to what this study is and who is performing it. The Commission was tasked by Congress to perform this study. Any recommendations, conclusions, or findings will be those of the Commission.

The Commission has engaged a multi-discipline team of experts through the auspices of George Mason University (GMU) to perform research and analysis to supplement Commission staff work. We also will be receiving drafts, rewrites, policy options, additional policy options, and etcetera from the GMU team. So, the information we receive from GMU will be at best draft and predecisional.

I should also comment that while the GMU team includes a number of widely published, well known experts, I am unfamiliar with any of their work that argue against providing service universally.

I am surprised by the lack of faith in the Commission and the Congress. There seems to be an underlying current of thought that the Commission and Congress would somehow "rubber stamp" the work being performed by our consultants. That assumption is without basis. I know that some of the other witnesses have expressed such sentiments. I met with them following the hearing to address these rumors, and my door is always open.

B. How much weight will be given to this report?

Again, we will receive component parts from the GMU team. We may reject a version and we may like another one. The consultant's work will be informed by the outreach the Commission is doing, including field hearings and a workshop, all of which are open to the public. As to the weight given the Commission's report, that issue will be decided ultimately by Congress.

C. Will the public and other interested parties be given sufficient time and opportunity to submit comments to the PRC in response to the findings contained in this report?

We have formally established a several-month period for receiving comments and reply comments period on the issues to be raised in the report. In addition, as I mentioned, there will be field hearings and a workshop, all of which are open to the public. Once our findings become final, then interested parties can and may make their views known to Congress.

D. Will the PRC members be submitting their own opinions, including possible dissenting views, concerning this study?

My experience has been that the collegial process helps the Commissioners to find common ground and areas for agreement. Notwithstanding that, the Commissioners willingly explain how their views differ from their colleagues on a variety of issues. I would expect any Commissioner, should he or she feel strongly, to include supplemental or dissenting views.

2. If the PRC is to meet its statutory obligations, it will need access to Postal data and certainty the data provided is accurate. The PRC has not yet used its new subpoena power. Many believe it was only because of the adversarial process of the on-the-record litigation that the Postal Service's original data was found to be grossly inaccurate. It is the job of the PRC to determine what data exists, what data needs to be compiled and whether the data is accurate or not.

In addition, the PRC will need to ascertain whether the Sarbanes Oxley compliance reports and the Annual Compliance Reports are accurate.

A. Since transparency is essential to effective regulation, what is the PRC doing to ensure transparency of the Postal Service?

Accurate, timely, and usable data is the cornerstone of the Commission's goal of ensuring transparency and accountability of the

Postal Service. The Commission's Annual Compliance Determination reviews data provided by the Postal Service through its annual compliance report. This determination, as required by the PAEA, evaluates, analyzes, and makes recommendations concerning the financial and service performance of the Postal Service based on its previous fiscal year. Moreover, 39 U.S.C. § 3652 details the annual costs, revenues, rates, and service reporting to be submitted by the Postal Service to the Commission.

Another avenue is to receive complaints under 39 U.S.C. § 3622. The Commission's current complaint process will be enhanced to reflect this provision of the PAEA, and new proposed regulations will be issued soon for public comment.

B. How does the PRC ensure that the Postal Service has (and provides) accurate and up-to-date data?

In reviewing the Postal Service's submissions related to the Commission's Annual Compliance Determination, the Commission identified certain shortcomings. We are working with the Postal Service on these issues. Having completed our first Compliance Determination, we will issue rules soon that will assist us and the Postal Service in this process. Provisions of the PAEA and the Commission implementing rules provide assurances that the Postal Service will provide accurate data to the Commission.

MARIE THERESE DOMINGUEZ
VICE PRESIDENT
GOVERNMENT RELATIONS AND PUBLIC POLICY



June 27, 2008

The Honorable Danny K. Davis
Chairman, Subcommittee on Federal Workforce,
Postal Service and the District of Columbia
House of Representatives
Washington, DC 20515-6143

Dear Chairman Davis:

Attached please find answers to questions for the record following the May 8 oversight hearing. These questions and answers pertain to pricing issues. As always, we appreciate your interest in the US Postal Service and look forward to working with you and your staff.

Sincerely,

A handwritten signature in cursive script that reads "Marie Therese Dominguez".

Marie Therese Dominguez

Attachments

House Subcommittee Questions for the Record

Follow-up to May 8 Oversight Hearing

1. What efforts have the Postal Service made to increase revenue in light of decreasing mail volumes and how effective do you believe your efforts have been? This would include (1) pricing and reclassification of market dominant products; (2) NSAs to incent volume or cost-savings; (3) new products that position the USPS to take advantage of multichannel marketing; and (4) strategic partnerships with large companies in the mailing industry.

RESPONSE:

As described in the Strategic Transformation Plan, one of the Postal Service's main objectives is to grow revenue by providing cost-effective products which meet our customers' needs. The current economic conditions present challenges for the Postal Service and has, to some extent, resulted in lower than expected mail volumes. However, the Postal Service is continuing to develop new products and pricing to encourage mail volume growth. All of these initiatives are newly implemented (generally in May ; many are expected to bear fruit mainly in the longer term and therefore, the Postal Service cannot quantify yet their actual effectiveness in increasing revenue.

Pricing and Reclassification of Market Dominant Products: The Postal Service's most recent price adjustment (May 12) for market dominant products was designed to use the pricing flexibility inherent in the price cap mandated by law. In general, the pricing provisions of Postal Act of 2006 simplify the process for changing market dominant product prices with the result that our customers should see smaller more predictable annual price changes. This new pricing structure addresses a long-standing concern of customers that postal price changes were unpredictable and that this unpredictability made it difficult for customers to manage their mail and postage budgets. Increased price predictability will make it easier for customers to plan and removes one incentive for customers to look for non-mail alternatives.

- In addition to maintaining the average price change by class within the statutory cap, we took a number of other steps to encourage long-term, profitable revenue growth. Specifically, our price adjustments recognize the value of worksharing performed by our customers. Worksharing provides lower prices for customers who find it cost effective to presort, prebarcode, and enter mail closer to its ultimate destination. In addition, we continued to recognize the importance of shape and machinability in our prices.

For example, in the latest price change we took the following steps to encourage long-term growth and retention of mail volume.

- To make it easier for businesses to use First-Class Mail, we reduced the additional ounce price for presorted letters.
- Our price changes also addressed last year's large increases in the price to mail a catalog by implementing a lower than average price increase and adjusting prices to encourage additional pages and build future revenue.

- We lowered the price for Bound Printed Matter flats to encourage additional content and maintain and build volume in the long run.
- Our pricing of Address Correction Service encourages better addresses by making it easier for mailers to obtain address corrections.

In addition to the pricing initiatives to encourage growth in market dominant products, in May, the Postal Service began offering its first-ever domestic commercial product pricing for competitive products. These include providing domestic commercial customers with lower than retail prices as well as incentives that reward growth and encourage customer retention.

Negotiated Service Agreements (NSAs) to incent volume or cost savings: The Postal Service is in discussions with a variety of customers regarding customer specific contracts (NSAs) for shipping and mailing services. Our primary focus is on earning incremental revenue by providing targeted price incentives, service offerings, or both. We are generating significant interest among both current and potential new customers, and we believe that we can use contract pricing to generate new revenue. The first customer contracts under the new regulatory system were submitted to the Postal Regulatory Commission on May 20.

New products that position the USPS to take advantage of multichannel marketing: The Postal Service actively works with customers to inform them about how mail helps support multichannel marketing efforts. Some examples of how we work with customers include:

- Conducting and publishing research on the impact of direct mail on the effectiveness of multichannel marketing communications campaigns.
- Providing “best practices” case studies and commentary on multichannel marketing communications campaigns that include direct mail through a custom publication called “Deliver Magazine” sent bi-monthly to 350,000 marketing professionals.
- Participating with national and local advertising and marketing professional trade associations promoting the value of direct mail in multichannel marketing communications campaigns.
- Reaching out to marketers in large to small businesses through direct selling and advertising about the benefits of using direct mail as a part of multichannel marketing communications campaigns.

In addition, the Intelligent Mail Barcode will provide customers a way to better track their mail pieces so they can coordinate other components of a marketing effort with the use of mail.

Strategic partnerships with large companies in the mailing industry: The Postal Service is working with its partners, both consolidators and end-users, on a number of initiatives. Through some of this work, we are developing innovative uses for our

services and tailoring our service options to better meet market demand, especially in the shipping services. Additionally, we are working with our partners to drive volume to efficient operations through targeted pricing and contractual agreements, and to increase overall efficiency through continuing efforts to optimize work-sharing opportunities.

2. Similarly, Postal Service management and the Board of Governors need to know that the data on which their decisions are based are accurate and up-to-date. Many believe the Bank of America case demonstrated that lack of internal coordination, personality conflicts, and poor communication resulted in an initial Board decision that was not based on accurate data.

(A) What processes are in place to ensure that this does not happen when those decisions involve billions of dollars?

(B) What steps will the Postal Service and Board take to ensure that the PRC is provided accurate and up-to-date data?

RESPONSE:

(A) The costs developed to measure and track the progress of larger categories of mail, such as First-Class Mail letters, as reported in the Cost and Revenue Analysis Report (CRA) represent aggregate costs that are derived from the Postal Service's extensive ongoing data collection systems. These aggregate costs are tied to the information in the accounting system. Both the ongoing cost data collection systems and the accounting system have been, and routinely are, audited by independent outside auditors and the Office of the Inspector General, and represent the cumulative input of decades of analysis and improvement as a result of being scrutinized before the Postal Regulatory Commission in public hearings. The sampling systems which attribute billions of dollars of cost to the mail products are designed to meet specified standards of accuracy, standards which are often met by sheer dint of the enormity of the numbers of samples taken. The smaller or more isolated the activity measured, the more difficult it is to meet the same standards of accuracy, even if the data is more recent.

(B) The Postal Service is working to strengthen its current internal review processes, and to develop processes that ensure that new pricing and product initiatives reflect good business judgment and are consistent with statutory and regulatory requirements. Through its internal review processes, the Postal Service will identify and incorporate the best available data in both its decision making and its submissions to the Postal Regulatory Commission.

Each year, as part of the Annual Compliance Report, new information from postal data systems is incorporated into cost models. The Postal Service is constantly researching alternative sources for more recent data that is not readily available in existing, ongoing data collection efforts and systems. The Postal Service and the Postal Regulatory Commission have begun to consider how best to categorize costing issues to establish priorities to ensure that efforts to update data elements are focused on areas with the most potential value. The PRC and the Postal Service both recognize the necessity to evaluate whether a data update is needed rather than simply updating data elements

regardless of cost. We expect that, based on our consultations with the PRC, we will establish work lists of short-term and longer-term data needs, while taking into consideration the cost of collecting such information.

MARIE THERESE DOMINGUEZ
VICE PRESIDENT
GOVERNMENT RELATIONS AND PUBLIC POLICY



**UNITED STATES
POSTAL SERVICE**

June 9, 2008

The Honorable Danny K. Davis
Chairman
Subcommittee on Federal Workforce,
Postal Service and the District of Columbia
House of Representatives
Washington, DC 20515-6143

Dear Chairman Davis:

The attachments are answers to the questions for the record following the May 8 oversight hearing.

We appreciate your interest in this topic and look forward to continue working with you.

Sincerely,

A handwritten signature in black ink that reads "Marie Therese Dominguez".

Marie Therese Dominguez

Attachment

QFR-VARIOUS MEMBERS**Questions asked by members at the May 8, 2008 hearing for the record:**

Q1. Mr. Davis asked this question and would like you to submit this answer for the record: The Postal Service operations rely on employees coming to work every day. When employees' sick leave usage increases, that has a significant impact on operational costs. During the next several years, many FERS employees will be eligible to retire, and they currently do not have any incentive to save their sick leave, because unlike CSRS employees, they do not get any retirement benefit. Do you have any thoughts as to how that may impact operational costs during the next decade?

Answer: The Postal Service recognizes the sick leave benefit as providing critical income protection for our employees in their times of illness or non-employment related injury.

Employees' unplanned absences due to sick leave do complicate our operations and increase our costs. We are, therefore, concerned with the amount of sick leave used annually by our employees and, in particular, with what we have observed as an increased use of sick leave by employees in the time immediately preceding their retirement. However, this increase in sick leave usage occurs for both CSRS and FERS employees.

Addressing these concerns, Postal management has undertaken an employee communications program that emphasizes employees' own self interest in building up and safeguarding significant sick leave balances: employees' income protection during periods of illness or injury is limited to the extent of the balance of available sick leave hours accumulated. We are interested also in pursuing the development of equitable, cost-effective, approaches to the appropriate and prudent management of sick leave benefits by our employees.

Q2. Mr. Lynch would like a breakout of what the impact of fuel costs on the postal service?

To answer this question, we evaluated the various fuel types and purchasing methods currently employed. The evaluation identified three distinct effects on the costs to the Postal Service.

- 1. The first category includes fuel types with costs that are tied to the number of gallons used. This includes most ground transportation and Peak Season air transportation. It accounts for about 60% of the total fuel spend.**

2. The second category addresses the mail that flies on FedEx (25% of the fuel spend). There is a specific fuel charge that is adjusted by the Producer Price Index (a 45 day lagging escalation fuel adjustment mechanism) for this service. The calculation is based on the weight and density of mail flown.
3. For the remaining 15% of the fuel spend, there is no immediate impact or a very limited impact when the prices change since the cost of fuel is part of the flat rate contracted for the given service. However, the impact is normally felt at the next contractual adjustment period when the rate is reestablished. Commercial air, United Parcel Service, and rural - private vehicles fall in to this category.

When these factors are combined with the current market conditions of the various grades of fuel, we anticipate that our fuel costs for FY 08 may approach \$2.4 billion. This would reflect an increase of approximately 36% SPLY versus the corresponding average price of crude increasing 67%.

Q3. Mr. Davis requested USPS to look into the problems occurring in the Virgin Island and report back?

We appreciate this opportunity to provide an overview of service performance for the Virgin Islands. The postal Caribbean District covers all of the Virgin Islands representing ZIP Codes 006-009 and is a part of the postal New York Metro Area. Overall service performance for the most recent quarter measured showed service scores of 96 percent, which is a two percent improvement from the same period as last year. (SPLY)

POSTAL QTR/FY	QTR 2/08	QTR 1/08	QTR 4/07	QTR 3/07	QTR 2/07
NATIONAL AVG.	96	96	96	96	95
Caribbean (San Juan)	96	95	95	95	94

An emphasis has been placed on improving service scores for Priority Mail, which has been one of the issues that Representative Donna Christensen has asked us to review.

To put these service scores into context, it may be helpful to review how some of the mail is processed to and from the Virgin Islands.

The Caribbean District's Mail Processing plan, collects all First-Class letter mail originating in the US Virgin Islands to be processed in the San Juan, Puerto Rico Plant and Distribution Center (P&DC). The mail is processed through San Juan because of that facility's Biohazard Detection System, which provides the same level of security to all customers and employees that live in the Caribbean District

as compared to the rest of the country. The Biohazard Detection Service is a national program that was put in place several years ago to safeguard all our customers and employees.

All Intra Island (St. Thomas, and St Croix) flats, parcels, Priority Mail, and Express Mail stay on the Island. This includes mailers mail (known mailers that submit mail through the Business Mail Entry Unit (BMEU).

Outgoing Express Mail (from the VI) is required to go through Customs as it enters San Juan Air Mail Facility (AMF) prior to processing, while incoming Express Mail (to the VI) is received by Fed Ex and Commercial Airlines located in San Juan, and then is processed for the Virgin Islands.

All incoming International Express Mail for the Virgin Islands is required to be processed through Customs in St Thomas.

All Outgoing Priority Mail from St. Thomas, and St Croix is flown into San Juan and is required to go through customs as it enters the San Juan Air Mail Facility. Incoming intra Priority Mail that originates from the Virgin Islands is processed at the AMF as intra-Priority Mail. All incoming Priority Mail that does not originate from the Virgin Islands and San Juan is flown in via Fed Ex, UPS and Commercial and worked in San Juan. Daily direct flights from JFK and Miami are flown directly to St. Thomas and St. Croix with Priority Mail.

All 5-digit and carrier routed mail (standard and parcel post) is routed from the Jacksonville Bulk Mail Facility to St. Croix and St Thomas per week. However, Sectional Center Facility ZIP 006 - 009 mail is sent to San Juan to be worked and shipped to the Virgin Islands.

To complement these logistics, we recently have made some operational changes such as providing customers an option to drop mail off at a collection box up until 5pm. In addition, we have changed our terminal handling service to a provider that could offer a greater window of time to accept mail, which benefits our customers. This has improved the operational window at the Air Mail Facility to scan and tender mail to the first scheduled flights to the Virgin Islands.

To facilitate communication with our Congressional members, employees and customers, we have embarked on a broad-range communication plan. Highlights of that plan include:

- Numerous meetings with Congresswoman Christensen and her staff.
- Congressional tour of Biohazard Detection System.

- **Tour of Air Mail Facility, which included an on site review of Customs.**
- **Town Hall meeting in the VI with Delegate Christensen and Customs.**
- **Arranged a meeting with the Delegates office and the Inspection Service regarding rifled mail.**
- **Overseeing customer proper addressing plan to provide education to San Juan customers about proper addressing.**
- **Increased communication with postal Area office regarding late or cancelled flights incoming and outgoing.**
- **Re-established Postal Customer Council in the Virgin Islands.**
- **Coordinated the Trunk Bay First Day of issue with the Delegate and Governor of St John, May 16, 2008.**
- **Quarterly newsletter and postcard, featuring employees who are role models and providing exceptional service.**

Our location and customs issues add additional challenges to an already complex process. To the best of our ability, we continue to seek opportunities to educate employees and customers on proper mail entry requirements and procedures. We have met with custom officials separately and with Congressional officials to discuss the special challenges facing mail in the Virgin Islands.

Q4. Mr. Cummings would like to have the stats on the breast cancer stamps and the possibility of having other fundraising stamps in circulation at the same time?

Please see the attached letter which the Postal Service sent to Congressman Cummings on May 19, 2008.

Q5. Ms. Norton would like more information on the denial of the subsidy for the postal service for part D medical benefits.

For your review attached is the Postal Service May 2007 testimony regarding the Postal Service's application for the Medicare Part D retiree drug subsidy.



**STATEMENT OF THE UNITED STATES POSTAL SERVICE
BEFORE THE SUBCOMMITTEE ON OVERSIGHT OF
GOVERNMENT MANAGEMENT, THE FEDERAL WORKFORCE,
AND THE DISTRICT OF COLUMBIA
MAY 18, 2007**

The Postal Service appreciates the opportunity to provide testimony to the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia on the Postal Service's experience in applying for the Medicare Part D retiree drug subsidy.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the "MMA") provides a retiree drug subsidy to "sponsors" of qualified employment-based health benefit plans that provide retiree health benefits meeting the standards established by the MMA. The MMA explicitly states that the purpose of the retiree drug subsidy is to reduce employers' costs in maintaining retiree prescription drug benefits for the benefit of their Medicare-eligible retirees. The MMA recognizes that this cost reduction itself provides encouragement to self-supporting employers to continue providing retiree prescription drug coverage under the plans they maintain for the benefit of their Medicare-eligible retirees.

Title 39 permits the Postal Service to participate, as an independent provider of health benefits plans for its employees and retirees, in the group health plans of the Federal Employees' Health Benefits (FEHB) Program administered by the Office of Personnel Management (OPM). In recognizing the Postal Service as an independent participant in the FEHB Program, Title 39 permits the Postal Service to withdraw from the FEHB Program, subject to the requirement that the Postal Service may not provide a program of benefits that is, on the whole, less favorable than that offered to other federal employees. As an independent participant in the FEHB Program, the Postal Service is responsible for the employer's share of the premiums. Permitted by law to participate in the FEHB Program or to withdraw its plans from the FEHB Program, the Postal Service may determine its health benefits policies and decisions in the best interests of its employees; in accordance with its business interests, the requirements of law and regulation and its collective bargaining process.

The MMA specifies that all plans in the FEHB Program provide retiree prescription drug coverage at a level and standard that meet the requirements of the MMA for qualified Medicare Part D participation. The sponsors of those FEHB plans qualify to be participants in the retiree drug subsidy (RDS) program established by the MMA and thereby qualify for the retiree drug subsidy. The MMA stipulates that federal agencies and instrumentalities as well as state government, private sector, non-profit and other employers paying to maintain qualifying health plans for the benefit of their employees and retirees are entitled to receive the retiree drug subsidy.

The Postal Service qualifies as a "sponsor" under the terms of the MMA because the Postal Service provides a qualifying, employment-based group of health benefits plans for the benefit of its employees, retirees and their dependents through the FEHB Program. The MMA, Section 1860D-22(c)(2) defines "sponsor" to include, "in the case of a plan maintained jointly by one employer and an employee organization and with respect to which the employer is the primary source of financing, such term means such employer." Although the Postal Service cannot direct the costs, benefits, or funding requirements of the FEHB Program, the Postal Service qualifies as the "sponsor" of its plans under the MMA because it pays the employer's share of the premiums for the health benefits of its employees and retirees and because Postal Service employees

participate in the FEHB by virtue of their employment. As an independent, self-financed establishment of the federal government, the Postal Service finances these plans wholly through its funds raised through the sale of postage and postal services. In FY 2006, the Postal Service paid \$6.982 billion in health benefit premiums for its employees and retirees and survivors. It is clear the Postal Service meets the criteria established by the MMA for sponsors of Medicare Part D retiree drug benefits and is entitled to the employer's retiree drug subsidy.

The Postal Service applied for the Medicare Part D retiree drug subsidy in September 2005. After receipt and review of the Postal Service's application, the Centers for Medicare and Medicaid Services (CMS) accepted the Postal Service as "a participant in the Medicare Retiree Drug Subsidy (RDS) program" in October 2005. The application process was a complex, multi-step process that required the production of a significant amount of data.

The Postal Service fully complied with all the requirements established by CMS and also actively sought guidance from OPM. The Postal Service contracted the service of HayGroup to conduct the actuarial review of its health benefits plans that the CMS application process required. In preparation for the Postal Service submitting its application to CMS for the Retiree Drug Subsidy, HayGroup performed the following tasks: collected retiree census data; identified the specific plans that Medicare-eligible USPS retirees had selected; coded the benefit provisions for these plans and tested whether or not the benefits met the gross actuarial equivalency test and the employer subsidy was actuarially equivalent to the Medicare Part D Plan; prepared an actuarial attestation report; completed the on-line RDS application; prepared retiree census data for submission to the RDS data upload; and, uploaded the retiree census data.

Additionally, senior staff of the Postal Service devoted significant time and attention to the application process, working with HayGroup, engaging in dialogue with OPM staff, meeting with individual insurance providers of Postal Service plans and, coordinating the significant involvement of internal Postal Service resources and functions in Finance, Human Resources, Benefits Management, Labor Relations, and Law to ensure compliance with CMS requirements and to prepare for the transition of Postal Service staff and systems to the significant annual reporting required of participants in the Medicare Part D Retiree Drug Subsidy program. These efforts intensified following the acceptance by CMS of the Postal Service's application and its confirmation that the Postal Service was a participant in the Medicare Part D Retiree Drug Subsidy program.

The seriousness with which the Postal Service pursued its right to the MMA retiree drug subsidy is easily understood. The MMA retiree drug subsidy would significantly reduce Postal Service costs by permitting a sponsor of a qualified retiree prescription drug plan to receive a 28% subsidy for total prescription drug expenses, with certain restrictions, incurred by each Medicare-eligible retiree covered by the plan. Nearly 330,000 Medicare-eligible retirees participated in the Postal Service health benefits plan in 2006. Based on the numbers of retiree participants in the Postal Service plan and the MMA's formula for calculating the benefit, the value to the Postal Service of the MMA retiree drug subsidy is estimated at \$250 million per year.

Health benefits payments for current employees and retirees were a key driver in the increase in Postal Service expenses in 2006. Total Postal Service health benefits expenses for its over 700,000 employees and almost 450,000 retirees, their spouses and their survivors increased by \$387 million in 2006 to \$6.982 billion, a 5.9% increase over the previous year. Retiree health benefits expenses comprised \$1.637 billion of total Postal Service health benefits expenses in 2006, an increase of \$142 million on the year. Health benefits expenses, particularly retiree health benefits, are projected to continue as a key driver of increased Postal Service costs.

OPM stated in a letter to CMS, dated December 2, 2005, that it would be "inappropriate" for the Postal Service to receive the retiree drug subsidy. OPM also informed CMS that no health plans in FEHB would apply for or receive the MMA subsidy, including Postal Service plans. OPM declared in a letter to CMS:

"The intent of the employer subsidy payment is to encourage employers to continue providing prescription drug coverage to their Medicare eligible retirees. This rationale does not apply in the context of the Federal Government's support of the FEHB, because the Federal Government has no intention of discontinuing prescription drug coverage for retirees."

OPM's statement counters the explicit intent of the MMA and appears to say that the MMA limits the subsidy to those employers who intend to cease providing qualifying Medicare Part D benefits to their retirees unless they receive the subsidy. The MMA sets no such limits.

OPM also stated that accepting the retiree drug subsidy on behalf of federal agencies' retiree health plans "would be like paying itself." If that is the basis for OPM's denial of the retiree drug subsidy to the Postal Service, then it ignores the reality of the Postal Service's independent and self-financed participation in FEHB plans. OPM bills the Postal Service separately and receives payment from the Postal Service for the Postal Service's independent participation in FEHB plans. The Postal Service is capable of applying and participating in the RDS program independently and separately from OPM, as was demonstrated by its October 2005 application for and CMS's acceptance of the Postal Service as a qualified participant in the Medicare Part retiree drug subsidy program.

On December 8, 2005, CMS informed the Postal Service that it was "unable to accept" the Postal Service as a participant in the retiree drug subsidy program as it had determined that "OPM, which administers the FEHB, is the sponsor of that plan for purposes of the Medicare retiree drug subsidy provisions" of the MMA. Under the terms of the MMA, OPM cannot be seen as the sponsor, as it does not pay for the maintenance of Postal Service health benefit programs.

OPM has erroneously interpreted the MMA's explicit purpose, which is to reduce an employer's cost of providing retiree prescription drug benefits. The drug subsidy is not provided to employers in lieu of a planned cancellation of retiree prescription drug benefits. Rather, the drug subsidy reduces the employer's costs in continuing to offer the benefit. The MMA evens the playing field among employers who pay the costs of drug benefits for their retirees. The MMA makes no requirement that an employer declare future intent regarding such coverage before qualifying as a sponsor under the RDS.

Postal Service funds are raised from postal ratepayers, those purchasing postage and Postal services. Postal Service FEHB premiums collected by OPM are not paid with federally appropriated funds. In denying the Postal Service the right to apply for and receive the sponsor's retiree drug subsidy, OPM is withholding from the Postal Service the funds to which the MMA entitles it.

OPM's denial of the Postal Service's right to the MMA retiree drug subsidy creates disparate treatment for the self-financed Postal Service and all other recipients of the MMA retiree drug subsidy; disadvantages the Postal Service in relation to its competitors, who may well be qualifying sponsors eligible for the subsidy; fails to reduce the Postal Service's costs of providing prescription drug benefits to its annuitants as the law intended; and, effectively contributes to a rate of increase of Postal Service health care costs above the CPI level for the foreseeable future. The cumulative impact adversely affects the Postal Service's ability to restrain its costs so as to ensure universal service at an affordable rate to the American public, the mission for which the Postal Service was established.

The Postal Service believes that its right to the subsidy provided to qualifying sponsors of qualifying plans under the MMA should be recognized by CMS; that Postal Service participation in the Retiree Drug Subsidy program of the MMA should be restored; and, that the drug subsidy should be distributed to the Postal Service, an independent, self-financed federal establishment, to the benefit of its retirees as the law intends.

MARIE THERESE DOMINGUEZ
VICE PRESIDENT
GOVERNMENT RELATIONS AND PUBLIC POLICY



May 19, 2008

The Honorable Elijah E. Cummings
House of Representatives
Washington, DC 20515-2007

Dear Congressman Cummings:

This is in response to your May 12 letter to Postmaster General John E. Potter requesting additional information about semipostals.

Specifically, you asked for revenue and postal costs associated with the three semipostals issued to date:

Breast Cancer:

Since July 29, 1998, the Breast Cancer semipostal has generated \$62 million for research. Of this amount, \$1.2 million or 1.9 percent reflects incurred postal costs.

Domestic Violence Prevention:

From October 8, 2003, through December 31, 2006, the Domestic Violence Prevention semipostal generated \$3.2 million with \$224,000 going toward covering postal costs or 6.5 percent.

Heroes—September 11, 2001:


From June 7, 2002, through December 31, 2004, the Heroes semipostal generated \$10.5 million with \$524,000 going toward covering postal costs or 4.7 percent.

We appreciate your interest in the semipostal program. Currently, our legislative counsel is reviewing the Semipostal Reauthorization Act of 2000 to determine the law's intent regarding its authorized start and end dates. As you know, our view has been that the reauthorization act did not limit us to begin our program by 2010. Our view has been that the ten-year timetable for authorization has not yet started since the U.S. Postal Service has not yet issued a semipostal under its own authority.

We appreciate your suggestion that the Postal Service not limit the issuance of semipostal stamps to no more than one semipostal stamp on sale at any given time, and we will give this matter serious consideration. We will keep you and your staff informed as we reevaluate our position in this regard.

Again, thank you for your interest and we look forward to working with you and your staff on this issue.

Sincerely,

for 
Marie Therese Dominguez

cc: The Honorable Danny K. Davis
House of Representatives
Washington, DC 20515-1307

475 L'ENFANT PLAZA SW RM 10804
WASHINGTON DC 20260-3500
202-268-2506 FAX: 202-268-2503
WWW.USPS.COM